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ABSTRACT

This handbook, consisting of an introduction and 10 chapters, explains the 1995-96 procedures that higher education institutions must follow in administering the federal government's Student Financial Assistance (SFA) programs. Chapter 1 describes the organizational structure for those areas in the Department of Education that are directly involved in SFA program administration. Chapters 2 and 3 cover general requirements that apply to all the SFA programs. Chapter 2 covers student eligibility requirements and Chapter 3 explains the eligibility requirements for schools and programs. The remaining chapters (4 through 10) are devoted to requirements of specific programs. Chapter 4 explains how to calculate a Pell payment, and how to report the payment to the Department using Part 3 of the Student Aid Report (SAR). Chapter 5 provides general information common to all three of the campus-based programs. Chapter 6 concerns the Federal Perkins Loan Program. Chapter 7 covers the Federal Work-Study Program. Chapter 8 describes the Federal Supplemental Educational Opportunity Grant Program. Chapter 9 concerns state grant programs, and Chapter 10 addresses the Federal Family Education Loan Programs. Throughout the text graphics display recent changes to existing law and regulation. (JB)

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ED 388 192

The Federal Student Financial Aid Handbook 1995-96

Introduction

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U.S. Department of Education • Student Financial Assistance Programs

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INTRODUCTION

The *Federal Student Financial Aid Handbook* explains the procedures that schools must follow in administering the Student Financial Assistance programs (SFA programs). Some of these procedures are required by law and regulation, while other procedures are necessary for the operation of the Federal processing system and the various reporting systems for each program. In this Introduction, we will give an overview of the SFA programs and the *Handbook*, review recent changes to the law and regulations, and provide a basic glossary of financial aid terms and acronyms.

But first, it is important to understand the context of the information given in the *Handbook*. The Department has clarified, most recently in the preamble language to the General Provision regulations published April 29, 1994 (34 CFR Part 668), that Departmental guidance issued in the form of manuals, handbooks, other publications or Dear Colleague letters *does not* have the same legal force as regulations issued pursuant to formal rulemaking. However, such guidance *does* provide a foundation against which the reasonableness of a school's (or third-party servicer's) conduct may be measured. Accordingly, if a school's or servicer's actions are in conflict with such guidance, it would be improper and would not indicate a "good faith effort" on the part of that school or servicer.

The SFA Programs

We use the term "SFA programs" throughout this *Handbook* to refer to the student financial aid programs administered by the Office of Postsecondary Education within the U.S. Department of Education. (All but one of these programs are authorized by Title IV of the Higher Education Act of 1965, so they

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are often collectively referred to as the "Title IV programs.") These programs are:

- The Federal Pell Grant Program
- The William D. Ford Federal Direct Loan Program
- The Federal Family Education Loan (FFEL) Programs
- The Federal Perkins Loan Program
- The Federal Work-Study (FWS) Program
- The Federal Supplemental Educational Opportunity Grant (FSEOG) Program
- The State Grant and Scholarship Programs

In general, these programs provide need-based financial aid to postsecondary students, through grants, loans, or work-study. The individual program requirements differ somewhat, depending upon the type of aid provided and the manner in which funds are delivered to student. For instance, similar rules and procedures apply under the grant programs (Pell and FSEOG), and the various loan programs (such as Direct, FFEL, and Perkins) also share some common elements. Additionally, the Federal Perkins Loan, FWS, and FSEOG programs are usually discussed collectively as the "campus-based" programs, as explained later.

Federal Pell Grants

The Federal Pell Grant is generally considered the first source of assistance to the student. The Pell Grant is said to be "portable" because the student may submit the SAR or equivalent documentation at any participating school and be assured of payment (if the student has an eligible Expected Family Contribution [EFC]). In a sense, the student's eligibility is guaranteed, because Federal Pell Grant payments are not limited to the available funds at the school. The Department provides an initial authorization to all schools that participate in the Federal Pell Grant program, and increases that authorization (if necessary) to allow the school to pay awards for all eligible students who attend the school during the award year.

The maximum Pell Grant is $2,340 for the 1995-96 award year, but this by itself is seldom sufficient to meet a student's financial need. However, additional funds will usually be available from other Federal, private, or institutional sources.

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Federal Direct Loans

The Department's newest loan program, the William D. Ford Federal Direct Loan Program, offers loans to students and parents. The school certifies that a student is eligible for a loan amount on the loan application, which is then sent to the Department. The funds are provided directly to the student or parent borrower, through a participating school.

Direct Stafford Loans (for student borrowers) are "subsidized," meaning that the federal government pays interest on the loan while the student is in school and during authorized periods of deferment thereafter. An independent student in need of additional aid can also receive a Direct Unsubsidized Loan, but interest accrues from the date of origination and is the responsibility of the borrower. On both loans, repayment of loan principal does not begin until after the student has left school, following a grace period.

The parents of a dependent student can also borrow a Federal Direct PLUS Loan, provided the student is otherwise eligible for aid. This type of loan is also unsubsidized, so interest accrues from the date of origination and is the responsibility of the parent borrower. Repayment begins while the student is still in school. There is no grace period.

The Direct Loan program differs from traditional student loan programs in that the federal government provides the loan principal directly to the borrower; private lenders are not involved. Flexible repayment options and consolidation loans are also available. Several schools are participating in 1995-96, but the program is not covered in detail in this *Handbook*. For more information on the William D. Ford Federal Direct Loan Program, call the Direct Loan Task Force on (202)708-9951.

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Federal Family Education Loans

Under the FFEL Programs, private lenders* provide the loan principal and the federal government "guarantees" the loan (through a state agency). If the student or parent borrower defaults on the loan (or if the loan is cancelled), the lender is reimbursed.

The school certifies that a student is eligible for a loan amount on the loan application, which is then sent to the state guarantee agency for approval. If the loan is guaranteed by the agency and the lender approves the loan, the lender sends the loan amount to the school (in the case of a PLUS loan, the check is sent to the parent), and the school releases the proceeds to the student.

For Federal Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. In addition, the federal government pays a "special allowance" to the lender, throughout the life of the loan, to make up the difference between the interest rate charged to the student and the prevailing market rate. Repayment of loan principal does not begin until after the student has left school, following a grace period.

An independent student in need of additional aid can also receive an unsubsidized Federal Stafford Loan, but interest accrues from the date of origination and is the responsibility of the borrower. Again, repayment of loan principal does not begin until after the student has left school, following a grace period.

The parents of a dependent student can also borrow a Federal PLUS Loan, provided the student is otherwise eligible for aid. This type of loan is also unsubsidized, so interest accrues from the date of origination and is the responsibility of the parent borrower. Repayment begins while the student is still in school. There is no grace period.

FFEL consolidation loans are also available.

* In addition to banks and other traditional lending institutions, some schools act as lenders in these programs. In some cases, the guarantee agency can act as a "lender of last resort."

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Campus-based Programs

There are three campus-based programs, so named because each program is managed at the campus level. The three programs consist of low-interest loans (Perkins), part-time employment administered through the school (FWS), and grants (FSEOG). In the fall preceding the award year, the school submits to the Department a fiscal report for the past year and an application for funds for the coming year (FISAP). The school is allocated campus-based funds based on the data on the FISAP.

Each school is allocated funds for the award year based on the anticipated financial need of its student body. The school is responsible for selecting the recipients of campus-based aid, and deciding the amount to be awarded. As with the other SFA programs, there are statutory limits on the amount of campus-based aid an individual student may receive. Most students who have remaining unmet need will be eligible for aid from other Federal, private, or institutional sources.

Some schools that participate in other SFA programs choose not to participate in the campus-based programs because of the administrative responsibilities involved. For instance, when a school acts as a lender in the Federal Perkins Loan Program, or as an employer for the Federal Work-Study Program, it must comply with many of the same legal requirements (such as the Fair Debt Collection Practices Act and the Fair Labor Standards Act) that apply to a bank or a business.

State Grants and Scholarships

The Department also provides funds to state agencies for three other programs. The State Student Incentive Grant (SSIG) is a matching-funds program that encourages states to develop student aid programs. Many of the eligibility criteria are established by the state agency, although SSIG recipients must also meet the same basic eligibility criteria applicable to the other SFA programs.

The Byrd Scholarship and the Paul Douglas Congressional Teacher Scholarship programs have different eligibility criteria than the other SFA programs, and are not based on financial need, but on merit. While the federal requirements for these programs are described in this *Handbook*, you should refer to materials provided by your state agency for its requirements concerning student eligibility, program eligibility, and funding procedures.

The Handbook and Other Publications

The *Federal Student Financial Aid Handbook* consists of ten chapters, covering the SFA programs from the point of view of the school's financial aid administrator.

Chapter One describes the organizational structure for those areas in the Department of Education that are directly involved in SFA program administration.

Chapters Two and Three cover general requirements that apply to all the SFA programs. Most of these requirements are based on the General Provisions regulations (34 CFR Part 668). Student eligibility requirements, such as citizenship, satisfactory progress, and financial need are covered in Chapter Two. Chapter Two also reviews how federal student aid is "packaged" with other aid to meet the student's costs. Chapter Three explains the eligibility requirements for schools and programs, based on the Institutional Eligibility regulations (34 CFR Part 600), and covers the general requirements for a school to participate in the SFA programs, such as

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—
Organizational Structure

Chapter Two
—
Student Eligibility and Financial Need

Chapter Three
—
Institutional Eligibility and Administrative Requirements

Chapter Four
—
Federal Pell Grant Program

Chapter Five
—
Campus-based Programs (Common Elements)

Chapter Six
—
Federal Perkins Loan Program

Chapter Seven
—
Federal Work-Study Program

Chapter Eight
—
Federal Supplemental Educational Opportunity Grant Program

Chapter Nine
—
State Grant Programs

Chapter Ten
—
Federal Family Education Loan Programs

using a financial aid transcript, refund and repayment procedures, recordkeeping and administrative procedures, cash management requirements, and so forth.

The remaining chapters of the *Handbook* (Four through Ten) are devoted to specific program requirements. Chapter Four explains how to calculate a Pell payment, and how to report the payment to the Department using Part 3 of the Student Aid Report (SAR).

Chapter Five provides general information common to all three of the campus-based programs, and the specific requirements for each of the programs (Perkins, FWS, and FSEOG) are covered in Chapters Six through Eight.

The state grant and scholarship programs (SSIG, Byrd, and Douglas) are covered in Chapter Nine, and the FFEL programs (Federal Stafford and Federal PLUS) are covered in Chapter Ten.

The chart at the left gives a complete listing of all the chapters and their subject matter.

INTRODUCTION

The *Handbook* summarizes most of the regulatory and statutory requirements for the SFA programs, but there are several related publications that address special topics of interest to financial aid administrators. The *Counselor's Handbook* (high school version and postsecondary school version) discusses the application process and explains how to make corrections or other changes to application information. The *Verification Guide* describes the procedures to be used in verifying a student's application data. These publications are developed by the staff of the Development Section in the Training and Program Information Division, and are usually published in the fall preceding the beginning of an award year.

Other reference materials for the SFA programs include a compilation of regulations affecting the SFA programs, and various publication indexes. These publications are prepared through contract by the Information Section of the Training and Program Information Division.

While the *Handbook* and other related publications serve as comprehensive reference documents for financial aid administrators, there are other resources that serve more specialized needs. Several organizational units develop and distribute manuals or other materials describing operating procedures for the Recipient Data Exchange (RDE), the Electronic Data Exchange (EDE), the Electronic FISAP (report and application for campus-based program funds), and the Electronic DRAP (default reduction assistance for Perkins/NDSL). If you participate in one of these automated data systems, you will automatically receive these materials. Updates on changes in procedures and policy are provided to the financial aid community in the form of "Dear Colleague" letters throughout the award year.

The Department also provides several publications for fiscal officers and auditors. *The Blue Book* describes accounting, recordkeeping, and reporting procedures for schools participating in the SFA programs. The Department's Payment Management System provides a *User's Manual* for the Automated Clearinghouse/Electronic Funds Transfer system, a "direct deposit" system which provides SFA funds to participating schools. The Office of Inspector General publishes an *Audit Guide*

that gives an overview of the SFA programs from an auditor's perspective, and identifies areas of federal program compliance that must be reviewed by the auditor.

Statute and Regulations

The statutory authority for the SFA programs is found in Title IV of the Higher Education Act of 1965, as amended. The programs were most recently reauthorized by the Higher Education Amendments of 1992 (HEA) and the Higher Education Technical Amendments of 1993 (HETA). In addition, the Omnibus Reconciliation Act of 1993 (OBRA) also affected certain aspects of the programs, as did the Elementary and Secondary Education Act of 1994 (ESEA). In the *Handbook*, we have identified the major changes due to recent legislation by using the following markers in the margins:

SFA program requirements are also specified in regulation, published by the Department. The SFA program regulations are numbered as follows:

34 CFR Part 600	Institutional Eligibility
34 CFR Part 653, 654	Douglas & Byrd Programs
34 CFR Part 668	General Provisions
34 CFR Part 674, 675, and 676	Campus-based programs
34 CFR Part 682	FFEL programs
34 CFR Part 690	Federal Pell Grant
34 CFR Part 692	State Student Incentive Grant

Many of the 1992 Reauthorization changes were implemented through a process called negotiated rulemaking. The Department conducted several sessions of negotiations with representatives of the financial aid community. Several final regulations based on these negotiations were published in April 1994. Some regulations are still being developed. We have indicated areas that will require further rulemaking or interpretation with the following marker:

The newest regulations, however, were published in final in November 1994, and are effective for the 1995-96 award year. We have identified the major changes from these regulations (and the publication date of the regulation) by using the following markers in the margins:

Other ED Programs.....

Many other Departmental programs provide financial assistance to students through grants to states or funding through individual schools. For example, funds for the Christa McAuliffe Fellowship Program, which encourages outstanding teachers to continue their education and development, are appropriated through the Department's Office of Elementary and Secondary Education. Individuals apply through their state educational agency.

Also, the Patricia Roberts Harris Fellowship Program assists minorities and women in graduate and professional study in certain academic fields. Students apply directly to participating schools.

More information about these two fellowship programs, as well as on other programs administered by the Department, can be obtained by writing to:

Federal Student Aid Information Center
PO Box 84
Washington, DC 20044

The Department also provides student aid specifically for handicapped persons; however, this aid is administered by state governments and students must meet state eligibility criteria. More information is available at local or state vocational rehabilitation offices.

Several other Federal agencies offer student financial aid targeted to certain students, such as veterans' educational benefits, tuition assistance payments through the JTPA program administered by the Department of Labor, and the health loans and nursing scholarships offered by the Public Health Service. Detailed information is available from those agencies, or from administering state agencies.

✦✦✦GLOSSARY✦✦✦

Academic Year — This is a measure of the academic work to be accomplished by the student. The school defines its own academic year, but federal law and regulations set minimum standards for the purpose of determining SFA awards. For instance, the academic year for an undergraduate program must include at least 30 weeks of instructional time, during which a full-time student must complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. Unlike the award year, an academic year does not have to begin and end at the same time for all students. One student might enroll as a full-time student in September and complete one academic year of study in May, while another student might enroll as a half-time student in January and take twice as long to complete an academic year.

Award Year — The award year begins on July 1 and extends to June 30 of the next year. Funding for the Federal Pell Grant and campus-based programs is provided on an award-year basis — thus a student is paid out of funds designated for a particular award year, such as the 1995-96 award year.

Base Year — For need analysis purposes, the base year is the calendar year preceding the award year. For instance, 1994 is the base year used for determining eligibility in the 1995-96 award year.

Campus-Based Programs — The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs are collectively called the "campus-based" programs, because the funds are administered directly by the school's financial aid office and awarded to students under federal guidelines.

Central Processing System (CPS) — The Department's processing facility for application data, currently located in Iowa. The CPS receives student information from the FAFSA processors, calculates the student's official Expected Family Contribution (EFC), and returns the student's information to the FAFSA processor, which prints the Student Aid Report (SAR).

✦✦✦GLOSSARY✦✦✦

Cost of Attendance (also known as *Cost of Education*) — The student's cost of attendance includes not only tuition and fees, but the student's living expenses while attending school. The cost of attendance is estimated by the school, within guidelines established by federal law. The cost of attendance is compared to the student's EFC to determine the student's need for aid.

Default — Failure to repay a loan in accordance with the terms of the promissory note. (The definition given in the regulations for the guaranteed student loan programs specifies a timeframe for default — see Chapter Ten, Section Four.)

Department (or ED) — Abbreviation for the U.S. Department of Education.

Estimated Financial Assistance (EFA)— For the FFEL programs, the amount of student financial aid the student can expect from federal, state, school, or other sources, including grants, loans, or need-based work programs. The school must report this estimate when certifying an FFEL loan application.

Expected Family Contribution (EFC) — The amount that the student's family is expected to contribute towards the cost of attendance, usually based on the family's income and assets. The EFC is used to award aid for the Federal Pell Grant, campus-based, and Federal Stafford Loan programs.

FAFSA— See Free Application for Federal Student Aid.

FAFSA processors — Agencies that distribute and process the *Free Application for Federal Student Aid* under contract with the Department. More information about the FAFSA processors can be found in the *Counselor's Handbook.*

Federal Family Education Loan (FFEL) programs — The Federal Stafford Loan and Federal PLUS Loan programs. Funds for these programs are provided by private lenders, and the loans are guaranteed by the federal government, through state agencies.

Financial Need — The difference between the student's cost of attendance and the Expected Family Contribution (EFC).

✦✦✦GLOSSARY✦✦✦

Free Application for Federal Student Aid (FAFSA) — A student must file a FAFSA to apply for aid from any of the SFA programs, including the FFEL programs. The FAFSA is printed and distributed by several application processing systems under contract with the U.S. Department of Education.

Institution — A postsecondary educational institution. In this *Handbook*, we will use the terms "school" and "institution" interchangeably.

Need analysis — The process of analyzing the household and financial information on the student's financial aid application and calculating the amount the family can be expected to contribute to educational costs. For the SFA programs, the need analysis system is defined by law and results in a number known as the Expected Family Contribution.

Overaward — Generally, any amount of campus-based aid or an FFEL program loan that exceeds the student's financial need. (The overaward concept does not apply to the Federal Pell Grant Program.)

Overpayment — Any payment of a Federal Pell Grant, FSEOG, Federal Perkins Loan, or SSIG that exceeds the amount for which the student was eligible, whether the overpayment is the result of an overaward, an error in the cost of attendance or the Expected Family Contribution, or any other eligibility criterion, such as citizenship or enrollment in an eligible program.

Professional judgment—While the method for determining student's need for federal student aid is defined in the law, the law does give the financial aid administrator the flexibility to make individual adjustments based on the administrator's professional judgment, in three different ways: to override the student's dependency status (from dependent to independent), to adjust the components of the student's cost of attendance, and to adjust the data elements used to calculate the student's Expected Family Contribution. These adjustments must be made on a case-by-case basis, and the reasons for the adjustment must be documented in the student's file. Please see the *Counselor's Handbook* for more information on how to make adjustments.

✦✦✦GLOSSARY✦✦✦

Promissory Note — A legal document that the borrower signs to get a loan, in which the borrower promises to repay the loan, with interest, in specified installments. The promissory note will also include any information about the grace period, deferment or cancellation provisions, and the student's rights and responsibilities with respect to that loan.

Resources — Other student aid that must be taken into account to prevent an overaward in the campus-based programs, as defined in the regulations for the campus-based programs.

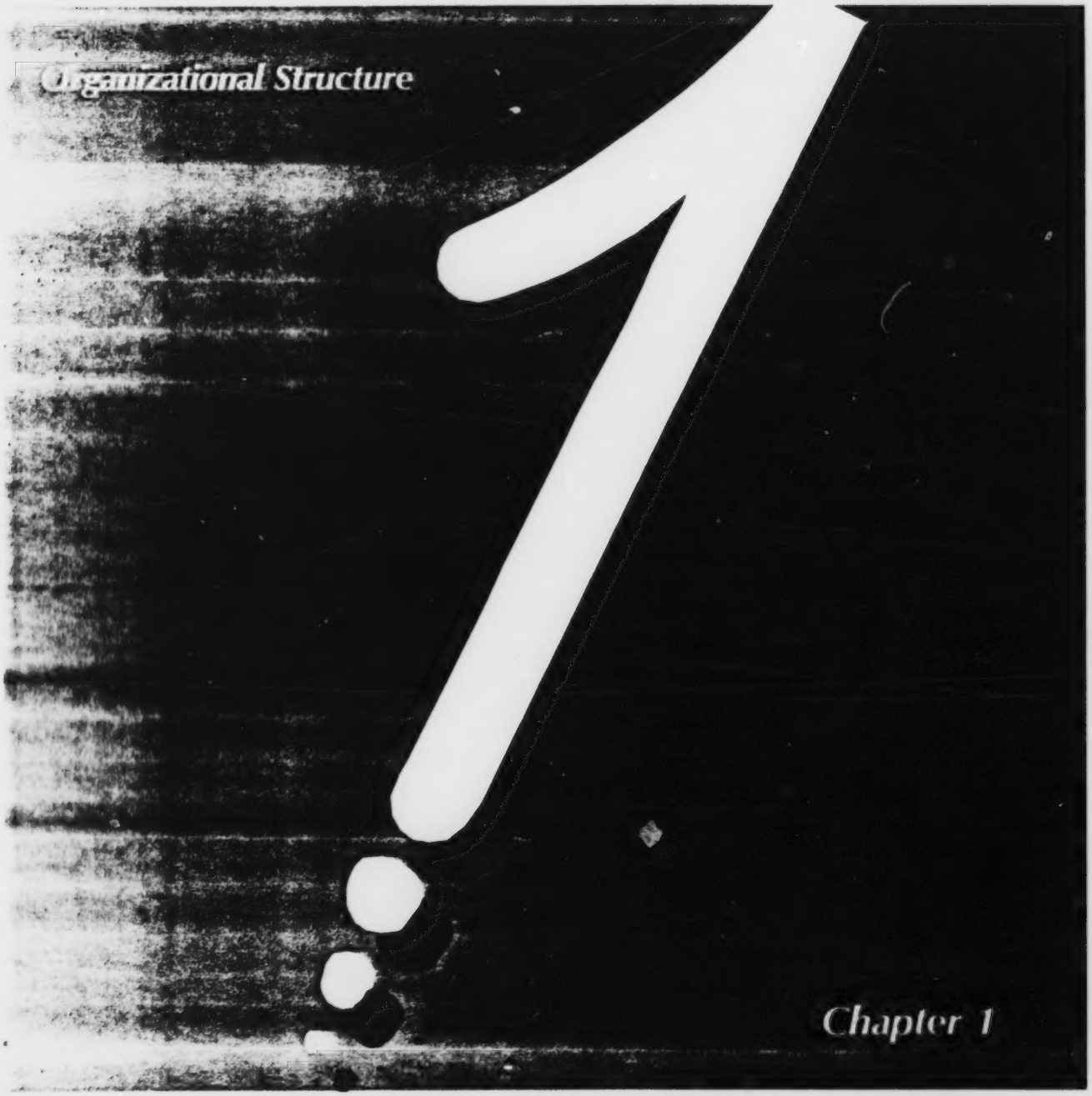
School — A postsecondary educational institution. In this *Handbook, we* will use the terms "school" and "institution" interchangeably.

SFA Programs — The programs administered by the Student Financial Assistance Programs within the U.S. Department of Education; namely, Federal Pell Grants, Federal Direct Loans, Federal Family Education Loans, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, Federal Perkins Loans, State Student Incentive Grants, Byrd and Douglas Scholarships.

Student Aid Report (SAR) — The federal "output document" printed by a FAFSA processor and mailed to the student. The SAR contains the family's financial and other information as reported by the student on the FAFSA. The student's eligibility for aid is indicated by the Expected Family Contribution printed on the front of the SAR. Schools that participate in the Electronic Data Exchange and other services offered by the Department can receive the information on the SAR through these services. (See the *Counselor's Handbook* for more information about the SAR.)

Verification — For students selected through the application processing system, schools are required to verify the accuracy of the information reported on the FAFSA, using tax returns and other documentation. If a student is selected for verification, an asterisk will be printed next to the student's Expected Family Contribution (on the Student Aid Report). Many schools choose to verify additional students other than just those selected through the application processing system. (See the *Verification Guide* for more information.)

The Federal Student Financial Aid Handbook 1995-96



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INTRODUCTION

Purpose of this chapter

This chapter covers the organizational structure within the Student Financial Assistance Programs (SFAP). SFAP is divided into five services. Four of the services are organized by function: accounting and financial management, program systems, institutional participation and oversight and regional operations, and debt collection. The fifth service combines the functions of policy, training, and analysis. Each of the services contains one or more divisions.

Other offices within OPE with which you may have contact

OPE is one of several offices within the Department of Education (the Department) with which your school may have contact. While SFAP provides aid directly to students, there are other offices throughout the Department that provide block grants to states and local education agencies that in turn administer these funds for education programs. Chapter Nine of this *Handbook* covers several programs administered by OPE's Division of Higher Education Incentive Programs (DHEIP). (DHEIP is under Higher Education Programs (HEP), which, along with SFAP, make up the two major components of OPE.) These programs are the Robert C. Byrd Honors Scholarship Program, and the Paul Douglas Teacher Scholarship Program.

Other offices within the Department

Other offices outside OPE include the Office of Special Education and Rehabilitative Services (OSERS), Office of Vocational and Adult Education (OVAE), and Office of Bilingual Education and Minority Languages Affairs (OBEMLA). Two other offices you may have contact with are the Office of Inspector General (OIG) and the Office for Civil Rights (OCR).

Requesting funds through ED/PMS

When your school requests funds from the Department through the Federal Pell Grant, Campus-Based programs, or the William D. Ford Federal Direct Loan Program,* that request is handled through the ED Payment Management System (ED/PMS), which is located within the Office of the Chief Financial Officer.

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* See page 2 for an explanation of the William D. Ford Federal Direct Loan Program.

Direct Loan Task Force--recent organizational changes

The Direct Loan Task Force reports directly to Leo Kornfeld, Senior Advisor to the Secretary of Education (the Secretary). The Task Force was established to manage and implement the Direct Loan Program. In addition to the Task Force, Direct Loans has a policy component within the Policy Division of the Policy, Training, and Analysis Service (PTAS), a Direct Loans Branch within the Accounting and Financial Management Service, and a Systems Division within the Program Systems Service.

Program regulations for the first year of the Federal Direct Student Loan Program (July 1, 1994-June 30, 1995) were published on January 4, 1994 (34 CFR Part 685). Program regulations for the second year of this program (July 1, 1995-June 30, 1996) were published on December 1, 1994. This program has been renamed the William D. Ford Federal Direct Loan Program. Loans available under this program are: Federal Direct Stafford/Ford Loans (also known as Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (also known as Direct Unsubsidized Loans. The other two loans under the William D. Ford Program are Federal Direct PLUS Loans, and Federal Direct Consolidation Loans. Under the William D. Ford Program, loan capital is provided directly to student and parent borrowers by the federal government, rather than by private lenders. The U.S. Department of Education is the lender for Direct Loans.

National Direct Loan Account Management Staff

Other organizational changes related to Direct Loans

The Default Management Section, which previously was part of the Institutional Monitoring Division under the Institution Participation and Oversight Service in SFAP has now become part of the National Direct Loan Account Management Staff that reports directly to Leo Kornfeld.

The Default Management Section (708-6048) implements activities related to reducing defaults at schools. This section notifies schools of default rates and associated requirements, such as the school's obligation to submit a default management plan. It monitors the school's compliance with plan submission requirements, reviews the submitted plans, and notifies the submitting schools of plan approval or of any needed modifications. For schools that contest their default rates, this section reviews documentation submitted by the schools, resolves discrepancies in the schools' data, and determines if adjustments are justified. Schools that lose their FFELP eligibility because of high default rates are notified by this section and provided with guidance for submitting appeals. Requests by schools for withdrawal from the FFELP programs are processed through this section.

STUDENT FINANCIAL ASSISTANCE PROGRAMS (SFAP) ORGANIZATION

SFAP organization

The Student Financial Assistance Programs (SFAP) organization is responsible for administering the SFA programs and for developing the policies and procedures to meet the objectives of those programs. As stated in the Introduction, SFAP is divided into five services. The organizational chart on page 5 of this section shows these services, and the services and their functions are described separately beginning on page 6. Telephone numbers are listed down to the branch level of each division (and to the section level if applicable). The area code for all SFAP central office numbers is **202**.

Other telephone numbers and information

Page 33 contains a listing of the Automated Data Exchange Specialists, along with their telephone numbers; page 34 lists the Pell Grant Program Financial Management Specialists, along with their telephone numbers; and page 35 lists the Campus-Based Programs State Representatives, along with their telephone numbers. Pages 36 and 37 contain the addresses and telephone numbers for the Department of Education's ten regional offices, and on the back of page 37 is a map of the Department's regions.

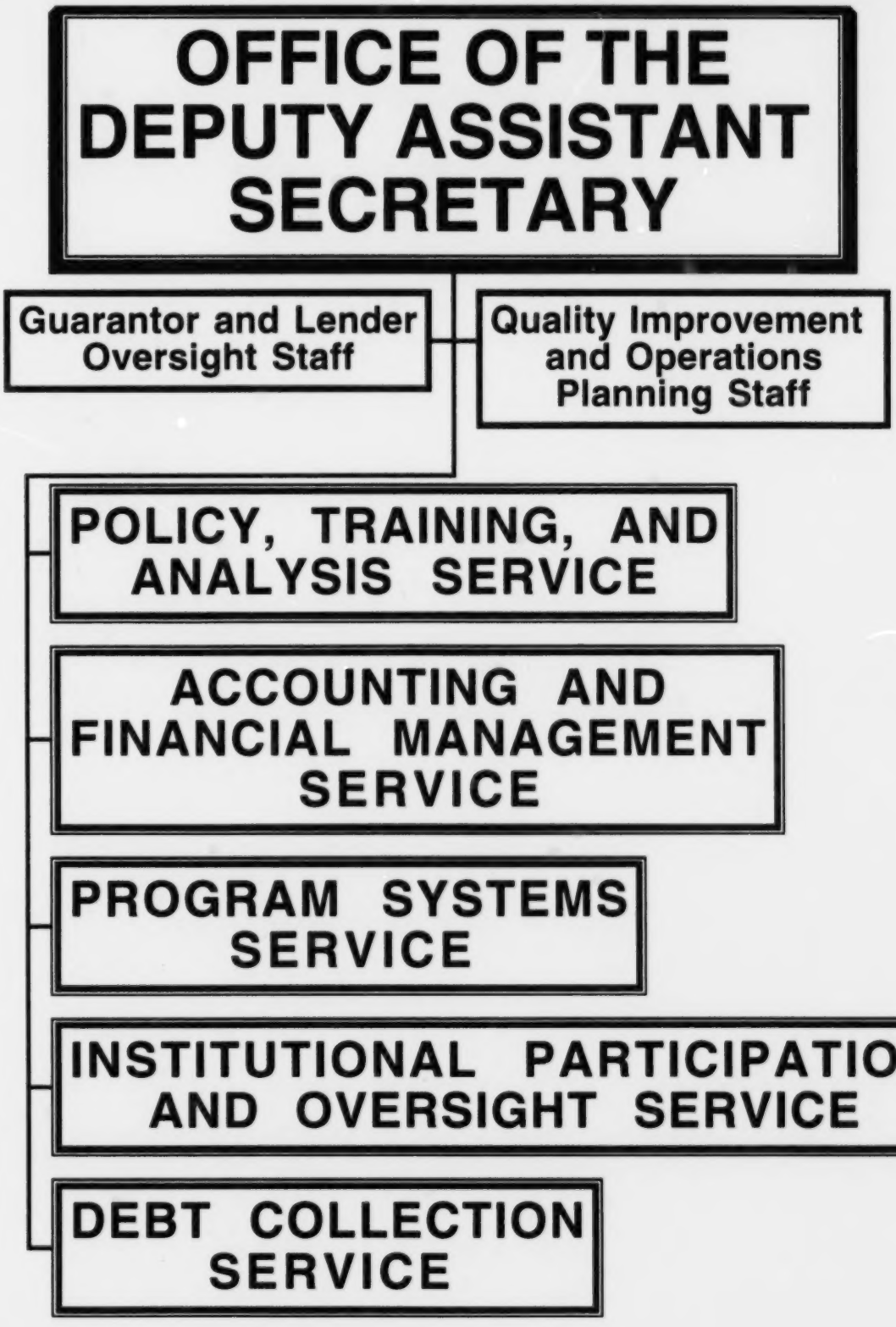
Recent changes to the SFAP organization—

- ❑ The Field Operations Service has been moved under the Institutional Participation and Oversight Service (IPOS) and has been renamed the Regional Operations Division.
- ❑ The Performance and Accountability Improvement Staff from the old Field Operations Service has been moved directly under IPOS and reports to that service director.
- ❑ The Guaranteed Student Loan Branches (formerly under the old Field Operations Service) have been renamed the Guarantor and Lender Review Branches.

- Within the Program Systems Service (PSS), the Applicant Systems Division and the Pell Grant Systems Division have been merged. The new division has been renamed the Application and Pell Processing Systems Division. The Advanced Systems Technology and Data Integration Divisions have been eliminated. There are three new divisions under the Service: Postsecondary Education Participants, National Student Loan Data System, and Federal Direct Student Loans Systems. The GSL Systems Division has been renamed the FFEL Systems Division, and the Campus-Based Programs Systems Division remains in place. There are no branches under these divisions.

- The Accounting and Financial Management Service has undergone a general reorganization. Under the old organization, there were three main program management divisions: Pell, Campus-Based, and FFEL. Each division had disbursement, accounting, and fund control branches. Under the new organization, there will be two divisions, one for loan financial management and one for institutional financial management. The Loans Financial Management Division contains three branches: FFELP, Financial Reporting, and Direct Loans. The Institutional Financial Management Division also contains three branches: Institutional Services, Pell Financial Operations, and Campus-Based Financial Operations. The new organization also contains the Financial Systems Interface and Requirements Staff and the Financial Improvement and Reporting Staff. These staffs report directly to the Service Director.

SFAP ORGANIZATIONAL CHART


OFFICE OF THE DEPUTY ASSISTANT SECRETARY
Guarantor and Lender Oversight Staff
Quality Improvement and Operations Planning Staff
POLICY, TRAINING, AND ANALYSIS SERVICE
ACCOUNTING AND FINANCIAL MANAGEMENT SERVICE
PROGRAM SYSTEMS SERVICE
INSTITUTIONAL PARTICIPATION AND OVERSIGHT SERVICE
DEBT COLLECTION SERVICE

Office of the Deputy Assistant Secretary 708-8391

The SFA programs are managed under the Office of the Deputy Assistant Secretary for Student Financial Assistance Programs (SFAP). This office formulates policy for, directs, and coordinates those activities of the Department of Education (the Department) that provide financial assistance through grants, work, and loan programs to students pursuing a postsecondary education. The programs administered through this office are described in the introduction to this *Handbook*.

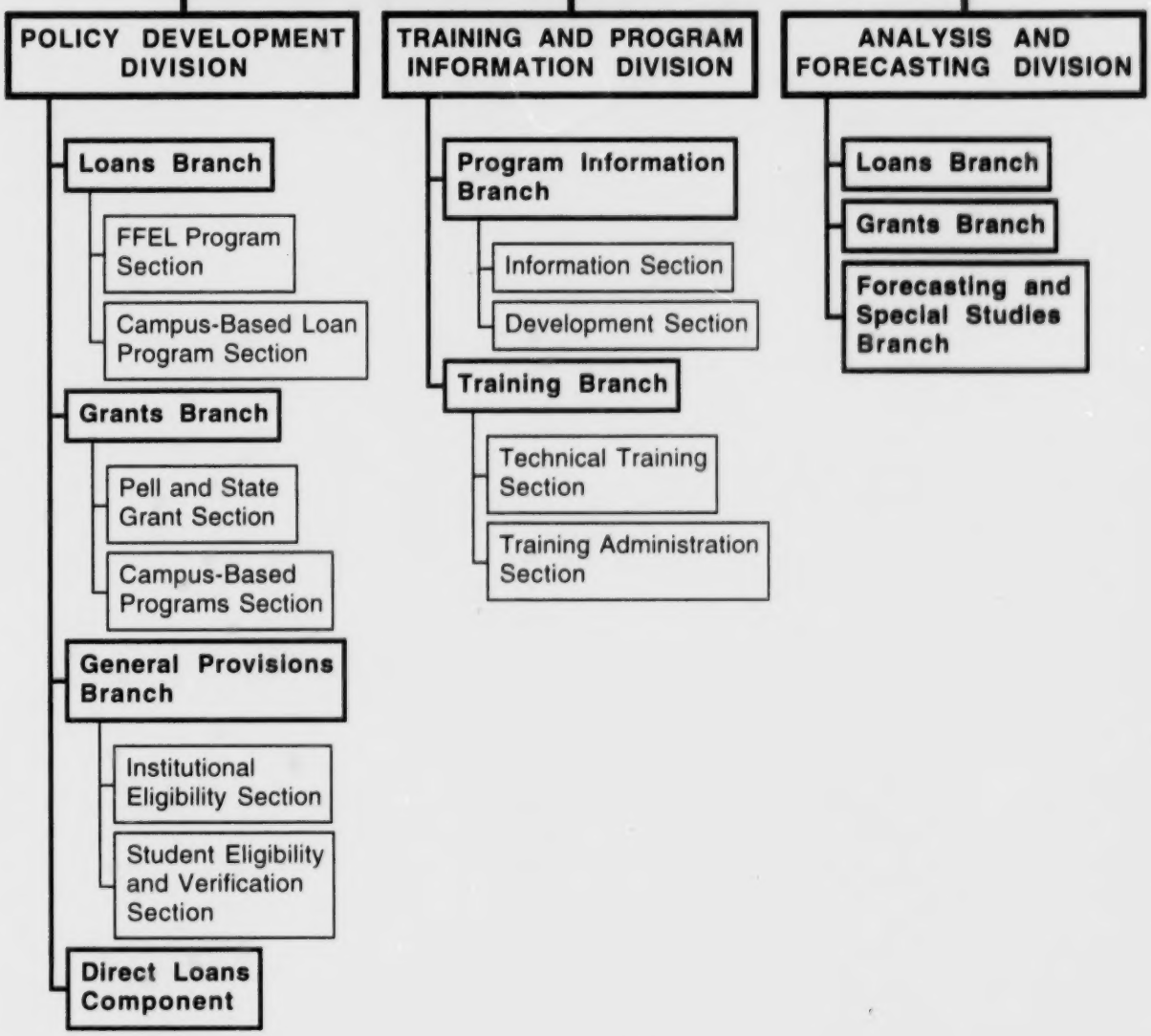
SFAP provides direction for the Department in meeting its goals in credit management and debt collection of defaulted student loans administered through the Department. It also administers the process by which the Department—

- ❑ recognizes accrediting agencies;
- ❑ determines whether postsecondary institutions satisfy the definitions of eligible institutions; and
- ❑ determines if eligible institutions meet the standards of financial and administrative capability for participation in the SFA programs.

Guarantor and Lender Oversight Staff/ Quality Improvement and Operations Planning Staff

SFAP contains the Guarantor and Lender Oversight Staff (GLOS) and the Quality Improvement and Operations Planning Staff (QIOPS). GLOS is responsible for overseeing the Department's interests with respect to guarantors (including their servicers) and lenders (including servicers and secondary markets). GLOS develops the *Lender Site Review Guide*, which assists guaranty agencies in conducting on-site lender reviews. As necessary, GLOS works with other federal and state agencies to develop and implement improvements in the administration of the SFA student loan programs by lenders and guarantors. QIOPS coordinates quality improvement activities throughout SFAP.

POLICY, TRAINING, AND ANALYSIS SERVICE



Service responsibilities

THE POLICY, TRAINING, AND ANALYSIS SERVICE (708-5217) is responsible for developing program regulations and formulating program requirements, policies, and procedures; for developing program training materials and program information for schools, students, and the general public; and for analyzing program impact and cost. The three divisions in this service are: Policy Development, Training and Program Information, and Analysis and Forecasting.

POLICY DEVELOPMENT DIVISION (708-9261)

The Policy Development Division (PDD) is responsible for developing and issuing program policies and regulations. It develops program regulations and other policy materials such as "Dear Colleague" letters and update bulletins that explain program policies to the financial aid community. In addition, PDD makes policy decisions and reviews and comments on proposed legislative changes. The division contains four components: the Loans Branch, Grants Branch, General Provisions Branch, and the Direct Loan component.

Loans Branch (708-8242)

The Loans Branch contains the Federal Family Education Loan Program (FFELP) (formerly GSL programs) Section and the Perkins Loan Program Section.

The FFELP Section (708-8242) develops regulations for the Federal Family Education Loan Program (34 CFR Part 682). Part 682 includes the Federal Stafford/Federal PLUS/Federal SLS (Stafford/PLUS/SLS),* and Consolidation Loan Programs. The Perkins Loan Program Section (708-8242) develops and updates the regulations for the Federal Perkins Loan Program (34 CFR Part 674).

Grants Branch (708-4607)

The Grants Branch contains the Pell and State Grant Section and the Campus-Based Programs Section.

The Pell and State Grant Section (708-4607) develops Federal Pell Grant regulations (34 CFR Part 690). It administers and develops the regulations for the State Student Incentive Grant (34 CFR Part 692) and the National Early Intervention Scholarship and Partnership (34 CFR Part 693) programs.

* The Federal SLS Program was repealed beginning with the 1994-95 award year.

The Campus-Based Programs Section (708-4690) develops the regulations for the Federal Work-Study Program (34 CFR Part 675), and the Federal Supplemental Educational Opportunity Grant Program (34 CFR Part 676).

General Provisions Branch (708-7888)

The General Provisions Branch contains the Institutional Eligibility Section, and the Student Eligibility and Verification Section.

The Institutional Eligibility Section (708-7888) develops the regulations for institutional eligibility and participation (34 CFR Parts 600 and 668), and the State Postsecondary Review Program regulations (34 CFR 667). The regulations for foreign medical school eligibility under the FFELP are included under 34 CFR Part 600 as Subpart E.

The General Provisions regulations include subparts on institutional participation (standards for financial responsibility, administrative capability, and audit and record keeping requirements); program and student eligibility; student consumer information requirements; institutional misrepresentation; fine, limitation, suspension, and termination procedures; appeal procedures for audit and program review determination; institutional refunds; satisfactory academic progress; and regulation of consultants and third party servicers.

The Student Eligibility and Verification Section (708-7888) develops policies and procedures for verifying the accuracy of data reported by students and parents in the application process. It develops the criteria under which applicants are selected for verification and develops the verification regulations (34 CFR Part 668-Subpart E). This section also develops standards for reviewing and approving tests used to determine a student's ability to benefit and approves the tests in accordance with those standards. This section is also responsible for overseeing the development of the Free Application for Federal Student Aid (FAFSA), Cost of Attendance, and other student eligibility issues. It also develops plans for conducting computer matches between the student aid applicant file and the files of other federal agencies to—

- identify students who have misreported information and determine the extent of the misreporting;
- verify Selective Service registration;
- obtain SFA program information from the National Student Loan Data System (NSLDS);

- ❑ confirm citizenship status; and
- ❑ verify Social Security Numbers (SSNs) of applicants, in general.

Direct Loan Component

The Direct Loan Component (708-9406) develops the regulations for the William D. Ford Federal Direct Loan Program (34 CFR Part 685). The component also interprets policy for the Direct Loan Program and develops program forms, such as the promissory note and deferment forms.

TRAINING AND PROGRAM INFORMATION DIVISION (708-8636)

This division coordinates training activities for the financial aid community and disseminates information on the SFA programs to the aid community, the general public, and other groups (for example, members of Congress). The Division contains the Training Branch and Program Information Branch.

Training Branch (708-8146)

The Training Branch directs training activities on the SFA programs. It assesses training needs, determines the methods to be used, and develops and evaluates training programs. This training is carried out by staff members of the branch itself, regional office staff members, and/or contractors. Training is targeted toward financial aid administrators, fiscal officers, chief executive officers, high school counselors, and staff of state aid agencies, loan guaranty agencies, and lending institutions. The branch develops *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Institutions For Federally Funded Student Financial Aid Programs. The Blue Book* is a reference manual for schools. It covers in detail the accounting, fiscal recordkeeping, and reporting requirements of the SFA programs.

Program Information Branch (708-9152)

The Program Information Branch distributes information about the SFA programs through publications, public media announcements, attendance and technical assistance at meetings and conferences, and distribution of brochures and technical publications to schools, state agencies, student organizations, and other groups interested in student financial aid. This branch also handles the printing and distribution of SFA forms and publications. It contains the Information and Development Sections.

The Information Section (708-8155) is responsible for responding to telephone inquiries from the general public, Congressional offices, and the education community concerning the SFA programs. You may call either this section or the Federal Student Aid Information Center (FSAIC) if you have questions on the SFA programs. The FSAIC's toll-free telephone number is **1-800-4-FED-AID (1-800/433-3243)**. This

section exhibits and disseminates SFA materials at national and regional education conferences. It maintains computerized mailing lists and tracking systems for SFA materials and also maintains the OPE Electronic Bulletin Board (OPEnet). OPEnet disseminates OPE policy documents electronically to a user's PC or mainframe terminal. These documents include regulations, "Dear Colleague" letters, Qs and As, calendars, and news bulletins. This electronic dissemination maximizes the availability of, and access to, policy information.

The Development Section (708-9152) develops SFA publications for a variety of audiences: financial aid administrators, high school counselors, parents, students, financial aid recipients, and the general public. These publications include the *FSFA Handbook*, *Expected Family Contribution (EFC) Formulas*, *Verification Guide*, and *The Student Guide*. This section develops informational materials for specialized audiences (for example, handicapped, Spanish-speaking) and writes the standard paragraphs and form letters used in responding to general correspondence concerning the SFA programs.

ANALYSIS AND FORECASTING DIVISION (708-4777)

This division collects information on the programs to analyze progress made in meeting program objectives and to project the fiscal impact of legislative and regulatory changes (for example, the consequences of the need analysis formula in the Higher Education Amendments of 1992). This division contains three branches: the Loans Branch, the Grants Branch, and the Forecasting and Special Studies Branch.

There are common program analysis functions performed by each branch. The major functions include—

- analyzing program trends regarding funding patterns, school participation, characteristics of school recipients, and variations in trends between funding years;
- analyzing program trends regarding application patterns, changes in those patterns between application years, and changes of eligibility rates;
- evaluating enrollment trends at postsecondary schools, as well as administrative practices at those schools, and other factors such as cost of education; and
- preparing responses to specific program data requests.

Loans Branch (708-4777)

The Loans Branch recommends and develops plans for evaluation studies on lender activity and on default rates. It develops the *Federal Family Education Loan Data Book*. This publication (formerly the *Guaranteed Student Loan Data Book*) provides historical data on guaranteed student loan activity, such as loan volume, lender portfolio, and default and collection activity.

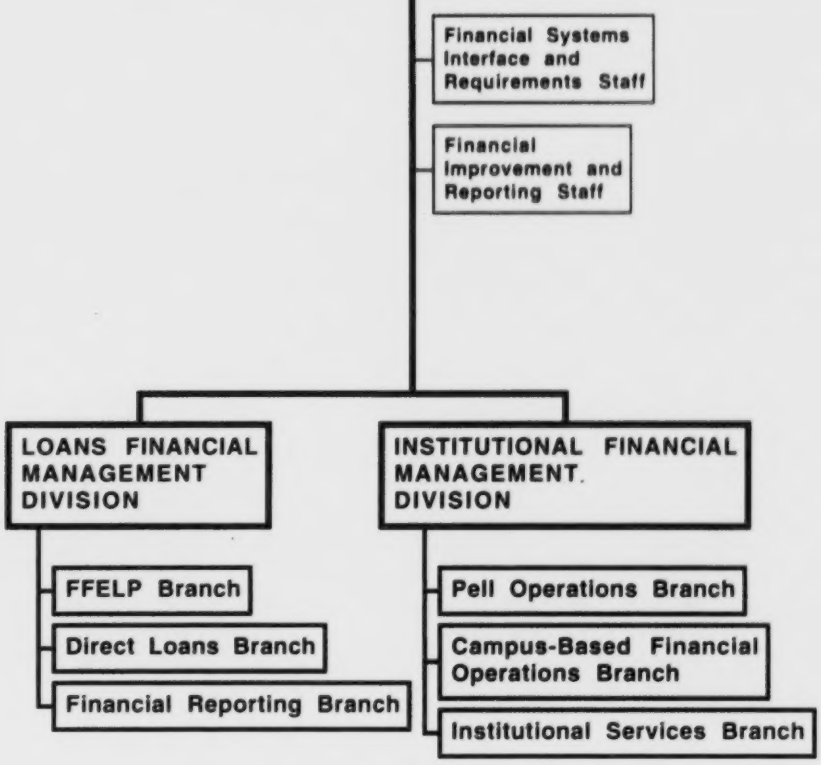
Grants Branch (708-8963)

The Grants Branch develops the *Federal Pell Grant End of Year Report*. It also develops the criteria used to select student aid applications for verification and identifies patterns of incorrect applicant information and determines if these patterns indicate possible school abuse.

Forecasting and Special Studies Branch (708-4777)

The Forecasting and Special Studies Branch develops budget models and makes budgetary projections for the SFA programs. It conducts studies to assess the quality and effectiveness of program delivery and is responsible for developing corrective actions to improve the administration and management of the SFA programs. It also develops the Federal Pell Grant Payment and Disbursement Schedules.

ACCOUNTING AND FINANCIAL MANAGEMENT SERVICE



Service responsibilities

THE ACCOUNTING AND FINANCIAL MANAGEMENT SERVICE (708-4664) is responsible for the accounting and financial management activities related to the operation of the Student Financial Assistance Programs (SFAP). The service develops procedures for delivering and accounting for program funds. The service contains two divisions: Institutional Financial Management Division and Loan Financial Management Division. In addition, the Service contains the Financial Improvement and Reporting Staff and the Financial Systems Interface and Requirements Staff.

INSTITUTIONAL FINANCIAL MANAGEMENT DIVISION (708-9807)

This division contains three branches: Institutional Services, Federal Pell Grant Financial Operations, and Campus-Based Financial Operations.

Institutional Services Branch (708-9807)

The Institutional Services Branch provides technical assistance to institutions regarding funding levels, expenditure reporting, and other program administration requirements for the Federal Pell Grant and Campus-Based programs. It prepares financial obligation documents and institutional payment letters. It analyzes reported expenditures and adjustments from audits and program reviews to reduce allocations, close accounts, and reallocate funds.

Federal Pell Grant Financial Operations Branch (708-9807)

The Federal Pell Grant Financial Operations Branch obligates Federal Pell Grant funds to schools, manages these funds, reconciles accounts, and closes prior year accounts. The branch develops requirements for initial authorizations, and reviews authorization adjustments. If you have questions about information reported on Payment Vouchers, Institutional Payment Summaries (IPS), IPS Batch Reports, Student Payment Summaries, or the Pell Grant Statement of Account, you should contact your Financial Management Specialist assigned to your school's region. A list of these representatives, along with each representative's telephone number is included on page 34 of this chapter.

Campus-Based Financial Operations Branch (708-9807)

The Campus-Based Financial Operations Branch (708-9807) develops procedures for obligating and controlling Federal Supplemental Educational Opportunity Grant, Federal Work-Study, and Federal Perkins Loan funds (these programs are called the Campus-Based programs). The branch develops the FISAP (Application to Participate/Fiscal Operations

Report). Schools apply for funds from the Campus-Based programs by completing the FISAP. The FISAP contains a section called the Fiscal Operations Report for schools to report expenditures against previous-year Campus-Based fund allocations. If you have questions regarding your school's funding levels, you should call your designated Campus-Based State Representative. A list of these representatives, along with each representative's telephone number is included on page 35 of this chapter.

The branch also determines and publishes institutional default rate data and approves Expanded Lending Option (ELO) requests for the Federal Perkins Loan Program.

LOAN FINANCIAL MANAGEMENT DIVISION (708-9776)

This division covers the operation of the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan Program DIrect Loan Program). This division is divided into three branches: Direct Loan Program, Federal Family Education Loan Program, and Financial Reporting.

Direct Loan Program Branch (708-9776

The Direct Loan Program Branch is responsible for accounting activities related to loan origination, loan defaults, origination fees, administrative cost allowances, and loan collections for the Direct Loan Program. The branch ensures that funds are provided to schools on a timely basis, and it monitors and controls funding levels in the Payment Management System.

FFEL Program Branch (708-9776)

The Federal Family Education Loan (FFEL) Program Branch processes and pays lender interest and special allowance billings and guaranty agency reinsurance claims for defaulted loans and other program expenses. The branch develops forms used in these payment processes. It also tracks the processing of these payment processes to ensure their timely processing.

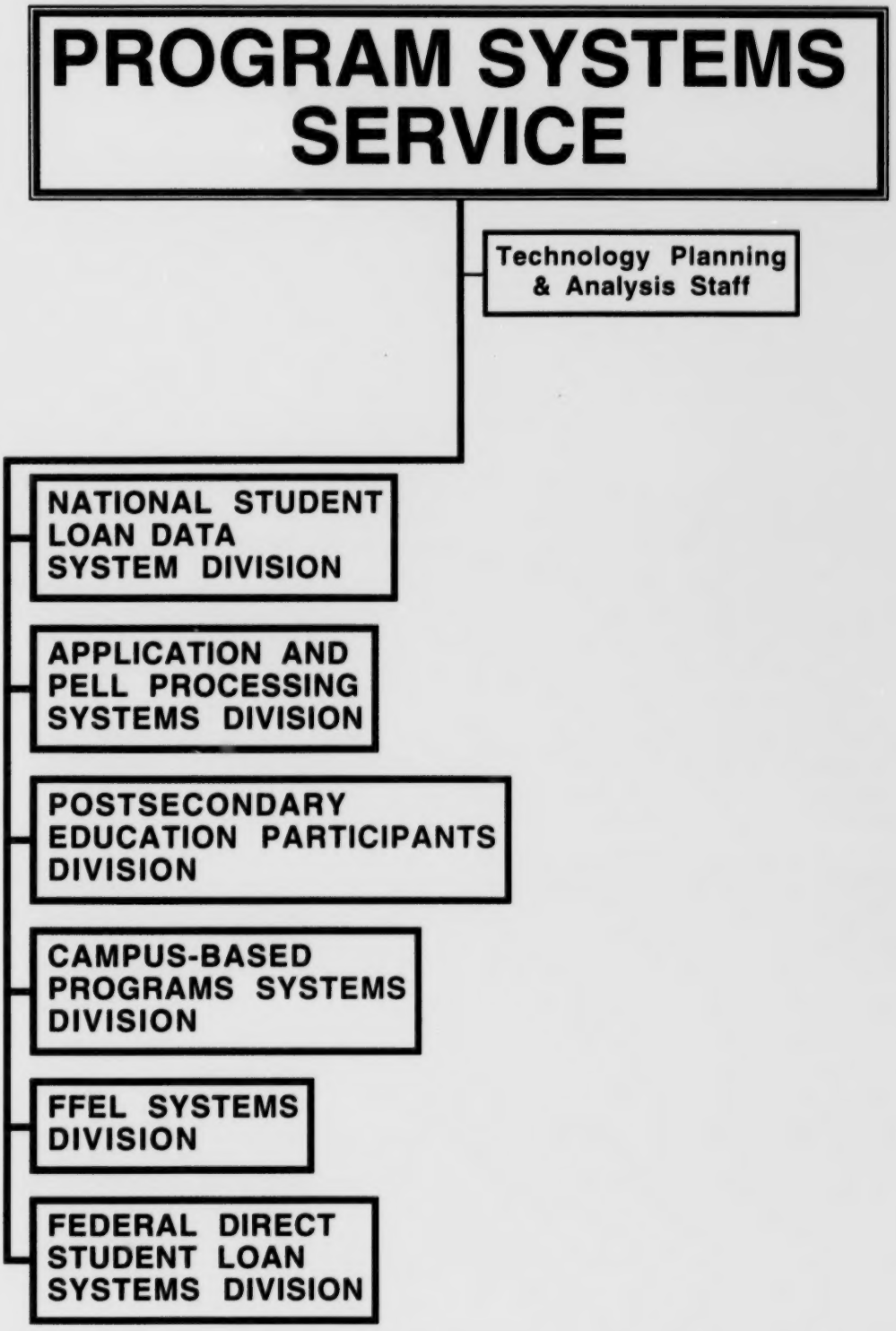
The branch maintains the lender and guaranty agency participation systems for the FFEL Program. This includes maintaining the universe files for participating lenders and agencies; assigning serial numbers for new entities; taking corrective actions for changes of ownership or name and address; and providing information to regional offices, guaranty agencies, or other appropriate users.

Financial Reporting Branch (708-9776)

The Financial Reporting Branch is responsible for controlling obligations and preparing financial reports for lenders and guaranty agencies consistent with Departmental requirements. The branch develops financial statements for the FFEL Program and the Direct Loan Program. The branch prepares monthly reports used in budget reconciliation and forecasting.

Financial Improvement & Financial Systems Staffs (708-4664)

Within the Accounting and Financial Management Service are two staffs: the Financial Improvement and Reporting Staff (FIRS) and the Financial Systems Interface and Requirements Staff (FSIRS). FIRS initiates projects and activities to improve service operations. FSIRS ensures that all SFA program systems comply with financial and accounting requirements mandated by Congress, Treasury, and OMB. You can contact either staff at the main Accounting and Financial Management Service number (708-4664).


PROGRAM SYSTEMS SERVICE
Technology Planning & Analysis Staff
NATIONAL STUDENT LOAN DATA SYSTEM DIVISION
APPLICATION AND PELL PROCESSING SYSTEMS DIVISION
POSTSECONDARY EDUCATION PARTICIPANTS DIVISION
CAMPUS-BASED PROGRAMS SYSTEMS DIVISION
FFEL SYSTEMS DIVISION
FEDERAL DIRECT STUDENT LOAN SYSTEMS DIVISION

Service responsibilities

THE PROGRAM SYSTEMS SERVICE (708-7701) administers contracts that provide automated delivery of program funds, as well as storage and management of those funds. These contracts include the services provided under the General Electric Support (GES) system (Electronic Data Exchange [EDE], Electronic Bulletin Board [OPEnet], and Query, which allows on-line access to GES users. The service contains the Technology Planning and Analysis Staff. This staff develops the computer information systems, the automated data processing systems, and the data element standards used in SFA student aid delivery process. The service has six divisions: Application and Pell Processing Systems, Campus-Based Programs Systems, Federal Family Education Loan Systems, Federal Direct Student Loan Systems, National Student Loan Data System, and Postsecondary Education Participant's System.

APPLICATION AND PELL PROCESSING SYSTEMS DIVISION (708-9988)

This division manages the SFA application and data processing activities and develops and maintains the Pell Grant data systems. It develops the Free Application for Federal Student Aid (FAFSA) and the Student Aid Report. The division also monitors the Multiple Data Entry (MDE) and Central Processing System (CPS) contracts. In addition, it develops the Electronic Need Analysis system (ENAS) and distributes the software and the user's guide to the student financial aid community. If you have questions about ENAS, you should contact National Computer Systems (NCS) User Services at **1 (319) 339-6642**.

Applicant data service

This division administers the applicant data service, which provides information about applicants from the federal student aid processing system to schools and state agencies. This includes data from the National Student Loan Data System. If you have questions about, or concerning participation in, the applicant data service, you should contact the Applicant Data Service Specialist, Federal Student Aid Programs at **1 (319) 339-6444**.

Pell Grant school and student data bases

Pell Grant school and student data bases are under this division. The division reviews and evaluates system processing activities to ensure compliance with standards or to correct deficiencies. It evaluates operational systems' effectiveness and efficiency. In addition, procedures are developed for Pell Grant payment processing and recommendations are made for changes to correct problems identified by recipients. The records retentions systems for student applications and program fiscal documents, both hard copy and microfilm, and access services for these records, are maintained within this division.

Institutional Access System

Finally, the division contains a new customer service initiative called the Institutional Access System (IAS). The IAS is an interactive voice response system, which allows direct access by the postsecondary financial aid community to Federal Pell Grant Program data. You can get financial and processing status information 24 hours a day seven days a week by contacting the IAS toll-free line at **1-800/ 4-P-Grant**. You can also request documents, such as the Student Payment Summary by calling this number.

CAMPUS-BASED PROGRAMS SYSTEMS DIVISION (708-6726)

This division develops and maintains the data systems for the campus-based programs. It develops procedural manuals for campus-based operational systems. It is responsible for the Electronic FISAP (electronic application for Campus-Based funds rather than completing the paper FISAP. In addition, the division is responsible for DRAP (Default Reduction Assistance Project). DRAP assists schools in returning borrowers with defaulted Perkins Loans to repayment. Under DRAP, participating schools can request the Department to send any one of a series of three letters to borrowers who have defaulted on their Perkins Loans or NDSLs. (The series includes a warning letter, 48-hour-notice letter, and a final demand letter.)

Perkins deferment and cancellation

This division provides assistance and advice to schools, billing services, and borrowers on Perkins Loan deferment and cancellation provisions, extension of the borrower's repayment schedule, and promissory note provisions. It provides assistance to schools regarding due diligence procedures and default reduction. This branch prepares the annual listing of elementary and secondary schools with a high concentration of students from low-income families. National Defense/Direct and Perkins Loan borrowers who teach at these schools may have part or all of their loans cancelled.

This division maintains a file of each school that has a cash balance in its Perkins Loan fund far in excess of the school's need. It also maintains a file of schools that have closed or have terminated their participation in the Perkins Loan Program. This division reviews and approves requests for partial waivers of the school share of the total FWS earned compensation and/or SEOG awards. (Each award year, the Secretary authorizes certain FWS and SEOG awards to be made entirely from the federal portion of the school's program funds.)

FEDERAL FAMILY EDUCATION LOAN SYSTEMS DIVISION (708-8760)

This division develops and maintains the data systems for the FFEL Programs. It develops and implements improvements to the FFEL programs computer system and monitors the day-to-day processing and maintenance of the FFEL programs computer system. The division also monitors the contractor responsible for operating the FFEL programs computer system.

FEDERAL DIRECT STUDENT LOAN SYSTEMS DIVISION (260-1933)

This division develops and maintains the data systems for the William D. Ford Direct Loan Program (Direct Loan Program). It develops and implements improvements to the Direct Loan Program computer system and monitors the day-to-day processing and maintenance of the Direct Loan Program computer system.

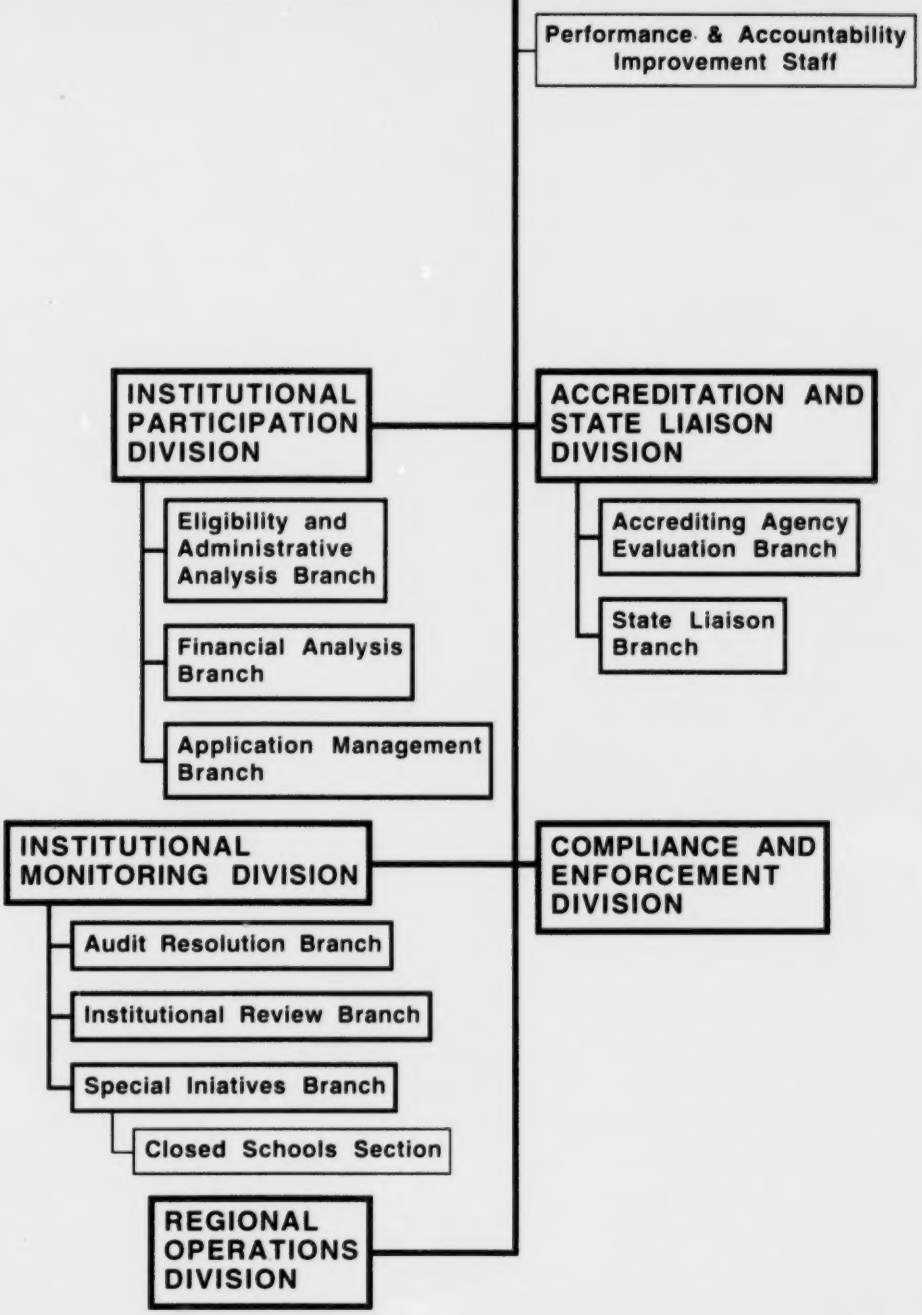
NATIONAL STUDENT LOAN DATA SYSTEM DIVISION (708-8125)

This division operates the system that contains data on all Department federal student loans and selected information on other student financial aid. This division provides a single reservoir of data for use in evaluating trends in the SFA programs. Data in the National Student Loan Data System will be provided by guaranty agencies, schools, other Department computer systems, and, indirectly, by lenders. The National Student Loan Data System will be used to track the status of aid recipients, determine applicant eligibility, and provide data for budget formulation.

POSTSECONDARY EDUCATION PARTICIPANTS SYSTEM DIVISION (708-6266)

This division operates the computer system used to support SFAP's responsibility for determining the eligibility of schools to participate in the SFA programs. It also operates the computer system used to monitor the participation of lenders, guaranty agencies, and accrediting bodies and other organizations.

INSTITUTIONAL PARTICIPATION AND OVERSIGHT SERVICE



Service responsibilities

THE INSTITUTIONAL PARTICIPATION AND OVERSIGHT SERVICE (708-6008) is responsible for monitoring schools' and financial institutions' administration of SFA programs through audit reviews and school, lender, and state agency reviews. It is also responsible for administering the fine, limitation, suspension, and termination authority. In addition, the service resolves issues that arise when schools close, declare bankruptcy, or are otherwise in financial or administrative trouble. The service administers the State Postsecondary Review Program and works cooperatively with both states and accrediting agencies as part of the Program Integrity Triad established by Congress. The three entities that make up the triad are accrediting agencies, states, and the federal government. These entities' shared responsibility is to ensure that participation in the SFA programs is open only to those schools that provide students with quality education or training worth the time, energy, and money those students invest in it.

Performance & Accountability Improvement Staff

The service also contains the Performance and Accountability Improvement Staff. This staff administers the Quality Assurance (QA) Program and is responsible for developing expanded applications of performance-based management models in the SFA programs. The QA Program is a successful complement to OPE's oversight strategy. It helps OPE promote and achieve better management of SFA dollars, and higher quality services to students. Within parameters, aid administrators in the QA Program develop procedures for achieving award accuracy, measuring the effectiveness of their procedures, and designing quality improvements to address weaknesses. Accuracy in financial awards has increased because QA Program institutions focus on identifying weaknesses and ways to improve the delivery of student aid. As a result, students and institutions benefit from this proactive approach to quality improvement in financial aid.

The service contains five divisions: Institutional Participation, Accreditation and State Liaison, Institutional Monitoring, Compliance and Enforcement, and Regional Operations.

INSTITUTIONAL PARTICIPATION DIVISION (708-4906)

This division is responsible for determining that institutions meet the statutory requirements of eligibility and the established standards of financial responsibility and administrative capability in order to begin and continue participation in the SFA programs. As required by the Higher Education Amendments of 1992, the division is also responsible for conducting annual recertification of currently participating institutions. The division is responsible for the regulations that govern an institution's eligibility and

certification (34 CFR Part 600 and 34 CFR Part 668). The division is organized into three branches: Eligibility and Administrative Analysis, Financial Analysis, and Application Management. The division is further organized into teams, comprising the ten regions and special functions such as changes in ownership and foreign schools.

Eligibility and Administrative Analysis Branch (708-4906)

The Eligibility and Administrative Analysis Branch analyzes each school's application (including foreign schools) to determine whether the school meets the institutional eligibility requirements as stipulated in 34 CFR Part 600 and the requirements for administrative capability under 34 CFR Part 668.16. The branch routinely confers with accrediting agencies, state authorizing agencies, and guaranty agencies. It also analyzes institutional audit and program review findings. The branch also develops procedures and guidelines for monitoring schools' withdrawal and default rates and other factors of administrative capability.

Financial Analysis Branch (708-6485)

The Financial Analysis Branch analyzes a school's financial viability as outlined in Chapter Three of this *Handbook*. As a result of this analysis, a determination is made regarding the compliance with the standards of financial responsibility as set forth in 34 CFR Part 668.15.

The branch also establishes procedures and guidelines that will be used to monitor a participating school's financial responsibility. As a reminder, all participating schools must submit to the Secretary, as requested on an annual basis, an audited financial statement.

Application Management Branch (708-6485)

The Application Management Branch maintains a log of incoming documents, such as the Application for Institutional Participation (ED Form E40 34P). It also reviews the school's application to determine that all required information has been submitted.

Program Participation Agreements

This branch maintains each school's Program Participation Agreement and also maintains Approval Notices that define eligibility and certification requirements for both domestic and foreign schools participating in the SFA programs. The branch verifies, as a condition for the school to receive funds under any SFA program, that the school is in compliance with the Drug Prevention Program Certification requirement under the Drug-Free Schools and Communities Act Amendments of 1989 (34 CFR Part 86).

Change of Ownership/ foreign schools

Listed below are the Institutional Participation Division teams, along with each team's telephone number, for the ten regions and for changes in ownership and foreign schools. The area code for each telephone number is **202**.

Team	Telephone Number
Team 1 (Region IV)	**205-3887**
Team 2 (Region V)	**205-3630**
Team 3 (Regions I & III	**205-3772**
Team 4 (Regions II & VII)	**205-3720**
Team 5 (Regions VI & VIII)	**205-6303**
Team 6 (Regions IX & X)	**205-3851**
Team 7 (Foreign Schools)	**205-3720**
Team 8 (Changes in ownership)	**205-3851)**

ACCREDITATION AND STATE LIAISON DIVISION (708-7417)

This division develops criteria that are used in recognizing state agencies and national and regional accrediting associations as reliable authorities concerning the quality of education and training offered by postsecondary schools or programs within the agency's or association's scope of operation. The division evaluates petitions for initial recognition, renewal of recognition, and expanded scope of recognition by accrediting bodies and state approval agencies. The division also administers the State Postsecondary Review Program and works cooperatively with states to strengthen and advance the role of states in granting authorization and licensure to postsecondary educational institutions. This division has two branches: Accrediting Agency Evaluation and State Liaison.

Procedures and criteria for the recognition of accrediting agencies and state approval agencies have been codified under 34 CFR Parts 602 and 603, respectively. Procedures for the administration of the State Postsecondary Review Program have been codified under 34 CFR Part 667.

Accrediting Agency Evaluation Branch (708-7417)

The Accrediting Agency Evaluation Branch administers the process by which accrediting agencies and State approval agencies for public postsecondary vocational education and nurse education obtain initial and continued recognition by the Department. This branch works with the National Advisory Committee on Institutional Quality and Integrity (NACIQI) in developing the Department's procedures and recognition criteria. NACIQI advises the Secretary of Education with regard to the recognition of accrediting agencies and on matters of institutional eligibility. The Secretary is required by statute to publish a list of nationally recognized accrediting agencies that are determined to be reliable authorities as to the quality of education and training offered by the schools and programs these agencies accredit. This requirement originated with Public Law 82-550, the Korean G.I. Bill, which was passed in 1952.

State Liaison Branch (708-7417)

The State Liaison Branch administers the State Postsecondary Review Program in which State Postsecondary Review Entities (SPREs) conduct or coordinate reviews of institutions referred to the state by the Department of Education in accordance with criteria set forth in the Higher Education Amendments of 1992. This branch reviews state review standards, which have been developed by the SPRE in consultation with the institutions located in the state. It also reviews state plans and budgets submitted by each SPRE in order to receive reimbursement for activities performed under this program. Further, the branch provides guidance and technical assistance to SPREs regarding the conduct, coordination, and resolution of reviews conducted under the State Postsecondary Review Program. The State Liaison Branch also serves as the liaison between the Department and State Departments of Education and State licensing agencies. For more information on this program, see Chapter Three of the *Handbook.*

INSTITUTIONAL MONITORING DIVISION (708-8197)

This division monitors institutional compliance with the student financial aid regulations. It develops standards and procedures for on-site compliance reviews of schools performed by regional offices and guaranty agencies. This division contains three branches: Audit Resolution, Institutional Review, and Special Initiatives.

Audit Resolution Branch (708-8208)

The Audit Resolution Branch analyzes school audits prepared by independent CPAs and state auditors to ensure that the school's administration of the SFA programs is in compliance with Department policies and regulations. When necessary, this branch will interpret program regulations and issue letters resolving the audits and determining liabilities.

This branch also makes recommendations and provides documentation of audit findings to the Office of the General Counsel (OGC), Office of Inspector General OIG, and the Department of Justice in support of investi-

gations for civil lawsuits. The branch consults with these offices concerning the status of particular schools under investigation or prosecution. Finally, the branch refers schools with serious deficiencies disclosed by audits for administrative action or program reviews.

Institutional Review Branch (708-8701)

The Institutional Review Branch develops standards and procedures for performing program reviews of schools participating in the SFA programs. It develops the *Program Review Guide*, which is used as a reference in conducting reviews. The branch collects and analyzes data from program reviews. It also makes recommendations for legislative and regulatory changes based on analysis of program review results. The branch makes recommendations and provides documentation for program review findings (including liability assessments) to the Compliance and Enforcement Division (CED), OGC, and OIG, to support further action against problem schools. (CED administers the Department's fine, limitation, suspension, termination, and emergency action procedures). In addition, this branch develops procedures for pre-certification reviews in conjunction with the Institutional Participation Division.

Special Initiatives Branch (708-6048)

The Special Initiatives Branch includes the Closed School Section (401-3294), which identifies closed schools and maintains the official list of closed schools. This list is used to help determine a borrower's eligibility for loan discharge based upon the school's closing date. The section develops policies and procedures for protecting the interests of students and the federal government when schools close abruptly. It also identifies school teach-out and tuition refund programs with state licensing agencies and accrediting bodies.

COMPLIANCE AND ENFORCEMENT DIVISION (708-8197)

This division administers the Department's authority to fine, limit, suspend, terminate, and take emergency action against schools, lenders, and third party servicers participating in the SFA programs. This division also coordinates the Department's funding control actions by transferring schools from one type of payment system to another (for example, transferring a school from the Advance Funding Payment System to the Reimbursement System of Payment). This division initiates government-wide non-procurement debarment and suspension actions against school's, lenders, and guaranty agencies, or individuals acting as a principal of a school, a lender, or a guaranty agency, in connection with their noncompliance with Title IV, HEA requirements, including criminal convictions. This division also disqualifies schools from participating in the FFEL programs nationwide after a guaranty agency has terminated a school from its loan programs. It reviews guaranty agency procedures for taking administrative action to ensure consistency with statutes and Departmental regulations.

REGIONAL OPERATIONS DIVISION (708-9192)

This division implements central office functions in the field through the regional offices, primarily conducting program reviews of participating schools in accordance with program review policies and procedures established by the Institutional Participation and Oversight Service. It conducts reviews of lenders and guaranty agencies in accordance with review policies and procedures established by the Guarantor and Lender Oversight Staff. This division also helps the financial aid community implement the SFA programs, and it provides training programs for the financial aid community in cooperation with the Training and Program Information Division.

The Director of Regional Operations and the immediate staff members are located in the central office in Washington, D.C. A regional director in each of the ten regional offices implements the division's functions, such as—

- ❑ tracking program reviews submitted by the branches to ensure timely resolution of reviews;
- ❑ monitoring regional performance in specific functional areas to assess whether the regions meet quality and quantity goals; and
- ❑ implementing the training function (which includes planning and ensuring the necessary regional training of schools, lenders, guaranty agencies, and state and regional associations with special needs. It also ensures necessary training for schools with special needs (for example, proprietary schools).

The training function is implemented by training officers in each region in accordance with national training policy and procedures as developed by the Training and Program Information Division.

The division contains the Institutional Review Branch (IRB) and the Guarantor and Lender Review Branch (GLRB). There is an IRB in each of the ten regional offices and a GLRB located in six of the regional offices. Telephone numbers for the individual branches are listed with the regional office addresses on pages 36 and 37 of this chapter.

Institutional Review Branches

Each region's IRB conducts program reviews of student financial assistance programs in schools and initiates corrective actions required to ensure that SFA funds are being properly used. The IRBs recommend settlement terms for liabilities identified in program reviews and also recommend reimbursement method of funding, monitoring of funds, and fine, limitation, suspension, or termination actions. They facilitate the accountability of SFA funds at schools that have closed or are ceasing participa-

tion in SFA programs, negotiate transfer of Perkins Loan funds and promissory notes from one school to another or to the Department of Education, and approve changes in institutional Perkins Loan level of lending.

The IRBs also provide necessary training, as coordinated by the Training Officers, for schools and other financial aid groups in the region, and provide technical assistance to the financial aid community.

Guarantor and Lender Review Branches

The Guarantor and Lender Review Branches (GLRBs) perform reviews of participating lenders, guaranty agencies, and related agencies and organizations (including secondary markets and servicers) in their own regions and in their other designated region(s). Four of the regional offices (Regions III, VII, VIII, and X) do not have GLRBs. In these regions, the lender and guaranty agency reviews will be done by one of the GLRBs in the other six regions. Region II handles the reviews for Region III; Region VI handles the reviews for Region VII; and Region IX handles the reviews for Regions VIII and X.

In conducting these reviews, the GLRBs initiate corrective actions required to ensure that SFA loan funds are being properly used and programs are properly administered. The GLRBs also monitor guaranty agency staff reviews of schools and lenders to ensure compliance with federal requirements and recommend settlement terms for liabilities identified in these reviews.

The GLRBs provide training, as coordinated by the Training Officers, for lenders, guaranty agencies, and other financial aid groups in the designated regions; they also provide technical assistance and service to lenders and guaranty agencies.

Page 36 contains a list of the street addresses and telephone numbers for the IRBs. A similar list for the GLRBs appears on page 37. Both branch addresses have common elements as shown in the box below.

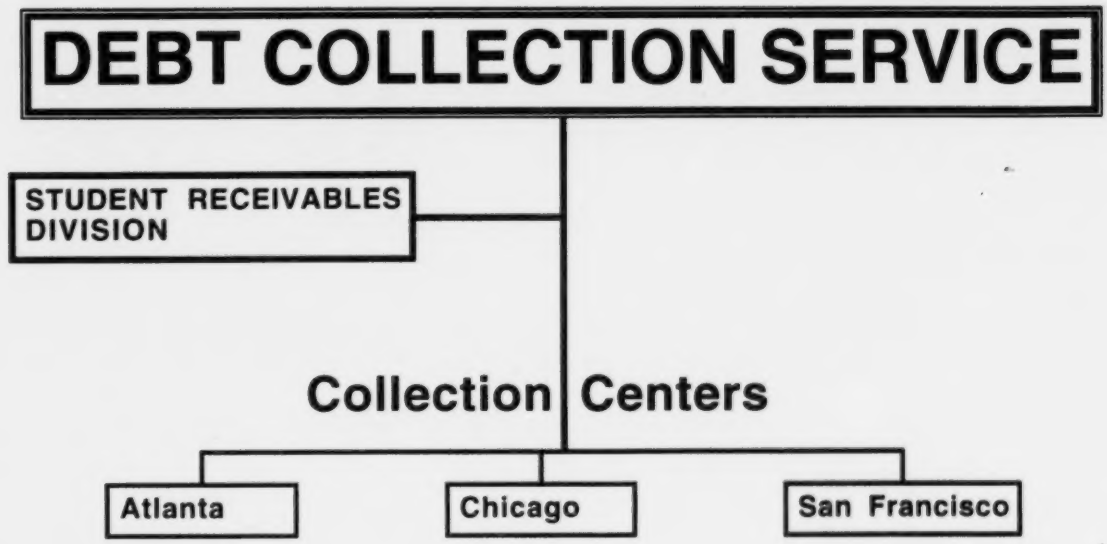
Department regional addresses

For inquiries to the IRBs, the first part of the address is—

Institutional Review Branch
Student Financial Assistance Programs
U.S. Department of Education, Region xx

For inquiries to the GLRBs, the first part of the address is—

Guarantor and Lender Review Branch
Student Financial Assistance Programs
U.S. Department of Education, Region xx


DEBT COLLECTION SERVICE
STUDENT RECEIVABLES DIVISION
Collection Centers
Atlanta
Chicago
San Francisco

THE DEBT COLLECTION SERVICE (708-4764) is responsible for the recovery of all defaulted student loans and overpayments that have been disbursed under the Title IV student financial assistance programs, and that have been subsequently assigned to the Department after exhaustion of all collection methods available to the lender, guarantor, or school. Collection of all loans not so assigned to the Department continues to be the responsibility of the lender, which may be a school, bank, savings and loan association, or guaranty agency, depending on the type of loan. The service contains one division and three collection centers.

STUDENT RECEIVABLES DIVISION (708-4766)

This division coordinates the programs used in collecting student loans held by the Department. These programs include the Federal Income Tax Refund Offset Program, the Federal Employee Salary Offset Program and the Administrative Wage Garnishment Program, as well as the program for national credit bureau notification. The division provides technical assistance for the operation of these programs. The division also establishes the policies and procedures to be followed by collection personnel that are either employed or contracted by the Department.

REGIONAL COLLECTION CENTERS

These centers are located in Atlanta (Region IV), Chicago (Region V), and San Francisco (Region IX). Each collection center executes the various collection programs and monitors and coordinates the procedures of the contracted collection personnel within its region. Collection agents employed by the Department operate from within these regional collection centers. These centers also serve to research and resolve disputes raised by borrowers against repayment, including claims of bankruptcy, disability, school closures, and loan mismanagement by the original lender.

Reference Section

The following pages contain listings of names and telephone numbers to be used for reference. Page 33 contains the Automated Data Exchange Specialists, page 34 contains the Pell Grant Program Financial Management Specialists, and page 35 contains the Campus-Based Programs Financial Management Specialists.

Pages 36 and 37 contain the addresses and telephone numbers for the Department of Education's ten regional offices. Following the regional offices is a map of the Department's regions.

Automated Data Exchange Specialists

Listed below are the Automated Data Exchange Specialists and their telephone numbers. Contact the appropriate specialist if you have questions on participation in these services. The area code for all the telephone numbers listed below is **(202)**.

- *Recipient (Tape) Data Exchange—*
  Randy Mongold 708-7725

- *Electronic Data Exchange—*
  Paul Mathis 708-8270
  --Electronic Applications
  --ESARs
  --Electronic Corrections

- *Floppy Disk Data Exchange—*
  Pell Grant User Support Hotline 708-9141
  Anita Williams 401-7537

- *Electronic Payment Information*
  Pell Grant User Support Hotline 708-9141
  Joanne Farley 708-6813
  --Electronic Statement of Account
  --Software Problems
  --Payment Data Record Rejects

- *Systems, Processing, or Services*
  Institutional Access System
  (IAS) Hotline 708-9141
  --Pell Grant Payment batch processing
  --Batch status

Pell Grant Program
Financial Management Specialists
Institutional Financial Management Division

If you have any questions about the information reported on Payment Vouchers, Institutional Payment Summaries (IPS), IPS Batch Reports, Student Payment Summaries, or the Pell Grant Statement of Account, you should contact the Financial Management Specialist assigned to your school's region. Below is a list of these representatives, along with their telephone numbers and the region that each representative covers. Backup representatives, along with their telephone numbers, are listed underneath the main representatives in parentheses. The area code for all of the telephone numbers listed below is **(202)**.

Name (alternate)	**Telephone Number (alternate)**	**Region (States and other jurisdictions)**
Jeannette Bailey (Sarenia Newsom)	708-9232 (708-9233)	**I** (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island & Vermont)
Barbara Maddox (Shirley Purvis)	708-8825 (708-6822)	**II** (New Jersey, New York, Puerto Rico, & Virgin Islands)
Barbara Maddox (Jeannette Bailey)	708-8825 (708-9232)	**III** (Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, & West Virginia)
Shirley Purvis (Terry Brooks)	708-6822 (708-9231)	**IV** (Alabama, Florida, Georgia, Kentucky, Mississippi, North and South Carolina, & Tennessee)
Terry Brooks (Barbara Maddox)	708-9231 (708-8825)	**V** (Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin)
Sarenia Newsom (Shirley Purvis)	708-9233 (708-6822)	**VI** (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas)
Sarenia Newsom (Carolyn Craddock)	708-9233 (708-7821)	**VII** (Iowa, Kansas, Missouri, and Nebraska)
Jeannette Bailey	708-9232	**VIII** (Colorado, Montana, North and South Dakota, Utah, and Wyoming)
Carolyn Craddock	708-7821	**IX** (Arizona, California, Hawaii, Nevada, and the Pacific Islands--American Samoa, Guam, Palau, Wake Island, and the Federated States of Micronesia)
Terry Brooks (Carolyn Craddock)	708-9231 (708-7821)	**X** (Alaska, Idaho, Oregon, & Washington)

Campus Based Programs State Representatives Institutional Financial Management Division

When your school files the FISAP (see page 14 of this chapter under *Campus-Based Financial Operations Branch* for an explanation of the FISAP) requesting campus-based funds for the following award period (schools must request funds for 1996-97 during the 1995-96 award period, for example), you will receive "Dear Colleague" letters notifying you of the tentative and final funding. Questions regarding the FISAP or your school's funding levels should be directed to your designated Campus-Based Programs State Representative. Below is a list of these representatives, along with their telephone numbers and the States that each representative covers. Backup representatives, along with their telephone numbers, are listed in parentheses underneath the main representatives. The area code for all of the telephone numbers listed below is **(202)**.

Name (alternate)	Telephone Number (alternate)	States Covered
Vicki Roberson (Dinah Nelson)	708-7747 (708-8759)	•Louisiana, Maine, Maryland, Michigan, Massachusetts, Minnesota, & Montana
Dinah Nelson (Vicki Roberson)	708-8759 (708-7747)	•Florida, Mississippi, Ohio, and Pennsylvania
Jennifer Eades (C. Franklin-Jones)	708-9184 (708-9183)	•Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, Puerto Rico, Utah, and Virgin Islands
Carol Franklin-Jones (Jennifer Eades)	708-9183 (708-9184)	•Alabama, Alaska, Arizona, Colorado, Connecticut, Delaware, Georgia, Kentucky, Rhode Island, and Vermont
Rhonda Herbert (Jim Porter)	708-9191 (708-7752)	•Arkansas, District of Columbia, Hawaii, Tennessee, Texas, Virginia, and the Pacific Islands--American Samoa, Guam, Palau, Wake Island, and the Federated States of Micronesia)
Joseph Morris (Alice Payne)	708-8745 (708-9754)	•Idaho, Illinois, Indiana, Iowa, Kansas, and Missouri
Alice Payne (Joseph Morris)	708-9754 (708-8745)	•California, and South Carolina
Jim Porter (Rhonda Herbert)	708-7752 (708-9191)	•North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Washington, West Virginia, Wisconsin, and Wyoming

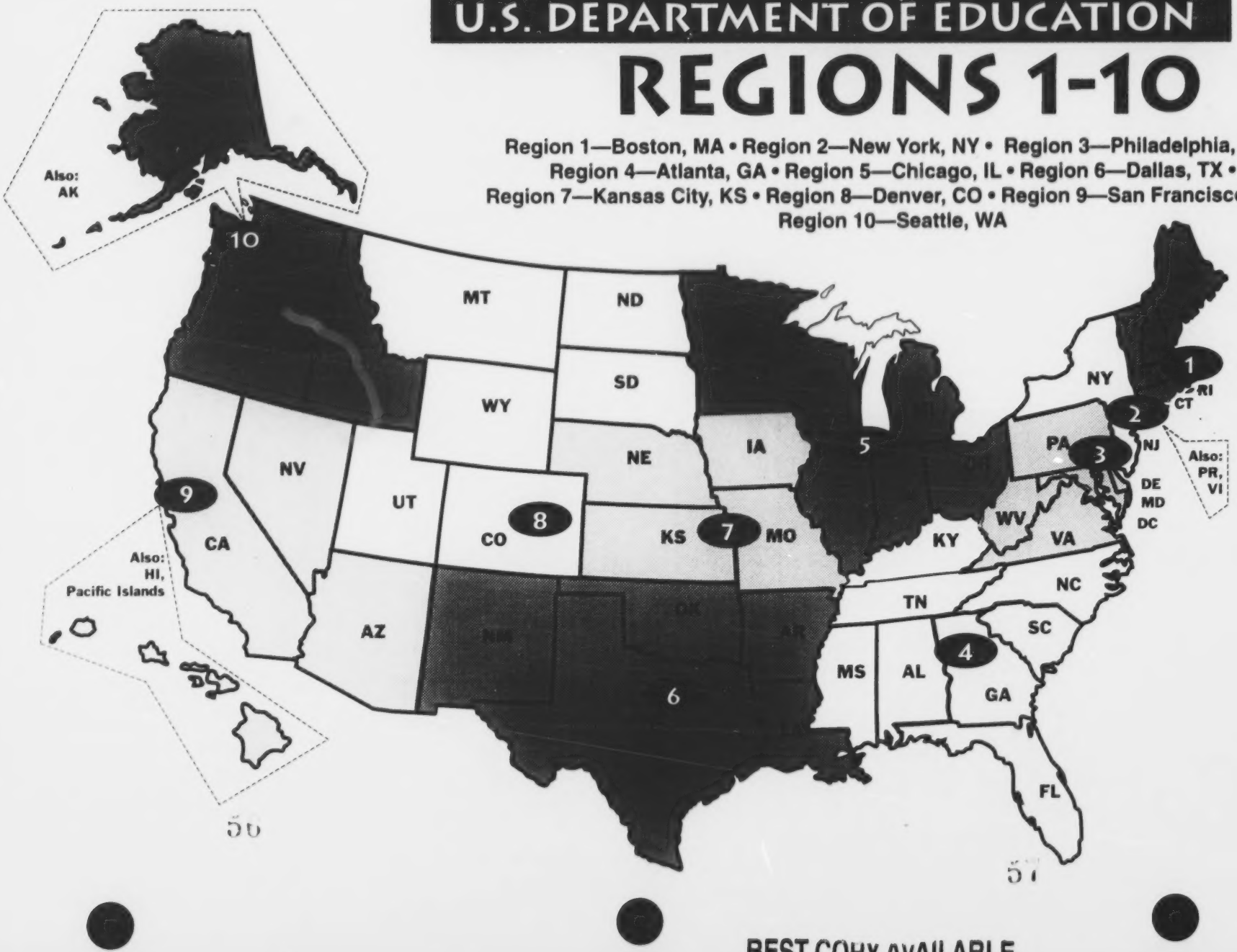
	Institutional Review Branches	*States Served*
Region I	J.W. McCormack Post Office and Courthouse Bldg. Room. 502 MS 01-0070 Boston, Massachusetts 02109 *Telephone: (617) 223-9338*	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	26 Federal Plaza, Room 3954 MS 02-1081 New York, New York 10278 *Telephone: (212) 264-4022*	New Jersey, New York, Puerto Rico, and the Virgin Islands
Region III	3535 Market Street, Room 16200 MS 03-2080 Philadelphia, Pennsylvania 19104 *Telephone: (215) 596-1018*	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region IV	PO Box 1692 MS 04-3080 Atlanta, Georgia 30301 *Telephone: (404) 331-0556*	Alabama, Florida, Georgia, Kentucky, Mississippi, North & South Carolina, and Tennessee
Region V	401 South State Street, Room 700-D MS 05-4080 Chicago, Illinois 60605 *Telephone: (312) 353-0375*	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin
Region VI	1200 Main Tower, Room 2150 MS 06-5080 Dallas, Texas 75202 *Telephone: (214) 767-3811*	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Region VII	10220 North Executive Hills Blvd. 9th Floor Kansas City, Missouri 64153-1367 *Telephone: (816) 891-8055*	Iowa, Kansas, Missouri, and Nebraska
Region VIII	Federal Building, Suite 310 1244 Speer Boulevard Denver, Colorado 80204-3582 *Telephone: (303) 844-3676*	Colorado, Montana, North & South Dakota, Utah, and Wyoming
Region IX	50 United Nations Plaza, Room 270 MS 09-8080 San Francisco, California 94102-4987 *Telephone: (415) 556-5689*	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, & the Commonwealth of the Northern Marianas
Region X	915 Second Avenue, Room 3388 MC 10-9081 Seattle, Washington 98174-1099 *Telephone: (206) 220-7820*	Alaska, Idaho, Oregon, and Washington

	Guarantor and Lender Review Branches	*States Served*
Region I	J.W. McCormack Post Office and Courthouse Bldg. 5 Post Office Square, Room. 502 MS 01-0070 Boston, Massachusetts 02109 *Telephone: (617) 223-9333*	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	26 Federal Plaza, Room 3954 MS 02-1081 New York, New York 10278 *Telephone: (212) 264-8143*	New Jersey, New York, Puerto Rico, the Virgin Islands, Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region III	No Guarantor and Lender Review Branch (served by Region II)	
Region IV	PO Box 1692 Atlanta, Georgia 30301 *Telephone: (404) 331-0556*	Alabama, Florida, Georgia, Kentucky, Mississippi, North & South Carolina, and Tennessee
Region V	401 South State Street, Room 700-D MS 05-4080 Chicago, Illinois 60605 *Telephone: (312) 353-0377*	Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin
Region VI	1200 Main Tower, Room 2150 MS 06-5080 Dallas, Texas 75202 *Telephone: (214) 767-3811*	Arkansas, Louisiana, New Mexico, Oklahoma, Texas, Iowa, Kansas, Missouri, and Nebraska
Region VII	No Guarantor and Lender Review Branch (served by Region VI)	
Region VIII	No Guarantor and Lender Review Branch (served by Region IX)	
Region IX	50 United Nations Plaza, Room 250 MS 09-8080 San Francisco, California 94102-4987 *Telephone: (415) 556-1630*	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, the Commonwealth of the Northern Marianas, Colorado, Montana, North & South Dakota, Utah, Wyoming, Alaska, Idaho, Oregon, and Washington
Region X	No Guarantor and Lender Review Branch (served by Region IX)	

U.S. DEPARTMENT OF EDUCATION

REGIONS 1-10

Region 1—Boston, MA • Region 2—New York, NY • Region 3—Philadelphia, PA •
Region 4—Atlanta, GA • Region 5—Chicago, IL • Region 6—Dallas, TX •
Region 7—Kansas City, KS • Region 8—Denver, CO • Region 9—San Francisco, CA •
Region 10—Seattle, WA



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The Federal Student Financial Aid Handbook 1995-96

U.S. Department of Education • Student Financial Assistance Programs

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INTRODUCTION

This chapter of the *Federal Student Financial Aid Handbook* describes the student-eligibility requirements affecting the Student Financial Aid (SFA) programs. The calculation of financial need, a key determinant of student eligibility, is examined here, as are the details of documenting citizenship status and other eligibility criteria. An updated list of Student Aid Report (SAR) comment activity for matches and hold files and revised versions of Selective Service's Status Information Letters are provided in appendices.

RECENT CHANGES

The Higher Education Amendments of 1992, the Omnibus Budget Reconciliation Act of 1993, and the Higher Education Technical Amendments of 1993 brought about many changes in the programs. These changes were phased in during the 1993-94 and 1994-95 award years. The issuance of a number of regulations in 1994 has clarified some of the previous changes and has brought additional changes for 1995-96. Throughout the chapter, we have tried to highlight the changes that are effective beginning in 1995-96. Among them are:

1. A change in SFA eligibility for citizens of Palau, which is now under a Compact of Free Association with the United States.

2. The implementation of the National Student Loan Data System (NSLDS), which will provide on the SAR more accurate information about a student's previous SFA loans and grant overpayments.

3. Changes to the specification of the maximum time frame in a school's satisfactory progress policy.

4. New requirements regarding the eligibility of students who have had previous loans cancelled because of the student's total and permanent disability.

5. The elimination of Correction Applications.

6. Changes in the eligibility of incarcerated students.

7. Changes in Immigration and Naturalization Service form numbers and procedures.

SECTION ONE: STUDENT ELIGIBILITY

This section discusses the student-eligibility criteria common to most of the SFA programs. Although there may be variations from program to program, the basic requirements, such as citizenship and satisfactory progress, are the same whether the student is applying for a grant, a loan, or work-study. See the program chapters (4-10) for specific information on requirements that apply to individual programs.

In many cases, a student eligibility requirement is linked to an institutional requirement. For instance, a student must be making satisfactory academic progress to receive aid; so, a school must have a satisfactory progress policy in order to monitor this requirement. Many of these institutional requirements are mentioned in this chapter but are discussed in detail in Chapter 3.

CITIZENSHIP

In order to receive aid from the SFA programs, a student must be one of the following:

1. **A U.S. citizen or national.** The term "national" includes not only all U.S. citizens, but also citizens of American Samoa or Swain's Island.

2. **A permanent resident of the U.S.** A permanent resident of the United States must either demonstrate eligibility as evidenced by a comment on the SAR[1] that the INS match has been successful, or provide further documentation from the Immigration and Naturalization Service (INS).

3. **Certain residents of the Pacific Islands.** Citizens of the Marshall Islands and the Federated States of Micronesia (the former Trust Territories) are eligible for Federal Pell Grants,

[1] Except where noted, the term SAR means either a Student Aid Report or any other official output document (that is, Institutional Student Information Report [ISIR] or electronic ISIR). Because some ISIRs do not contain the certification statements that a student may be required to sign, these statements must be separately obtained.

Federal Supplemental Educational Opportunity Grants, and Federal Work-Study funds only. On October 1, 1994, Palau became the third Freely Associated State along with Micronesia and the Marshall Islands. Citizens of Palau are still eligible for Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work-Study funds after that date. See Appendix A for further information.

4. **Other eligible noncitizens.** An individual who can provide documentation from INS that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident. This category includes refugees, persons granted asylum, Cuban-Haitian entrants, temporary residents under the Immigration Reform and Control Act of 1986, and others. (For a detailed discussion of the different categories of eligible noncitizens and INS documentation, see Appendix A.)

Attendance at foreign schools

Individuals in the above four categories may receive aid at eligible schools in the United States under the SFA programs. These individuals may also receive Federal Family Education Loans (FFELs) at FFEL-participating foreign schools.[2]

Match with INS records

The Department collects the Alien Registration Numbers for permanent residents and other eligible noncitizens through the student application process. (An Alien Registration Number is assigned to each legal alien by INS.) This information, along with other identifying data, is then compared with INS records through a computer match. If a student's data matches the information in INS records, a comment is printed on the SAR and the electronic ISIR; the comment code is provided in the record description of the ISIR. The report then serves as documentation of the student's permanent-resident or eligible-noncitizen status. This is called "Primary Confirmation."

Secondary Confirmation

If the school has conflicting information about the student's citizenship status or if INS was unable to confirm eligibility for a student who claims to be an eligible noncitizen, the school must collect other documentation. This is called "Secondary Confirmation" and is discussed in Appendix A. Note especially that the INS Verification Number must now be provided in block 6 of the Secondary Confirmation Request Form (G-845S). If an INS match is attempted but the student's data is not confirmed, a 13-digit INS Verification Number will be assigned to the student and printed in the FAA Information area of the SAR.

---

[2] In the case of parents who want to take out a Federal PLUS loan for a dependent undergraduate student, both the parent(s) and the student must meet the general requirements for a citizen or eligible noncitizen (that is, categories 1-4 above).

All secondary confirmation requests sent to INS *without* Verification Numbers will be returned unprocessed with one exception: If the school is performing Secondary Confirmation because technical processing difficulties prevented a computer check from occurring, the student will receive SAR comment 145, and no INS Verification Number will be printed. In that case, the school must write at the top of the G-845S form (preferably in red) "Comment 145 Present, Application Processed on _____ (processing date from SAR)." If on the other hand, the student's data did not go through the match because he or she failed to provide an Alien Registration Number on the application, the student will likewise not receive a Verification Number. However, in this case, the SAR should be resubmitted with the Alien Registration Number so that the computer match may be attempted.

Changes in citizenship status during an award year

If a student becomes a citizen or eligible noncitizen at any time during the award year, the student may be paid Pell Grant or campus-based funds as if he or she had been eligible during the entire award year. For example, if a student attending school during the 1995-96 award year is granted permanent-resident status (and is still enrolled) in May 1996, the student can receive Pell Grant and campus-based funds as if he or she had been eligible during all terms that the school considers part of that award year (July 1, 1995 to June 30, 1996).

Similarly, the loan amount for a Federal Family Education Loan or Direct Loan borrower who becomes a citizen or an eligible noncitizen during a period of enrollment may be the same amount the borrower would have received if he or she had been eligible during the full period of enrollment. For example, a first-year student has sufficient need for a full $2,625 Stafford Loan but is not eligible due to his or her citizenship status. This student enrolls in a two-year program in which he or she begins classes in July 1995 and advances to second-year status in May 1996. If this student becomes a citizen or eligible noncitizen before May 1996, he or she can receive the full $2,625 for the first year and another loan for the second year, provided that he or she continues to meet eligibility requirements and has not exceeded applicable borrowing limits.

If the same student does not become a citizen or eligible noncitizen until reaching second-year status (after May 1996), he or she cannot receive a loan for the first year but can receive the full amount for which he or she is eligible as a second-year student. Note that because a period of enrollment (the period for which the loan is made as determined by the school) must coincide with academic terms such as academic year, semester, trimester, quarter, or other academic period as defined by the school, the period of enrollment cannot be adjusted to cover any part of the first year.

A school is required to check a student's eligibility for aid based on citizenship status when aid is first disbursed for the award year (period of enrollment for a Direct Loan or FFEL loan). If a student loses his or her citizenship or eligible noncitizenship status during an award year (or period of enrollment), the school does not need to take any action. This is true even if the student applies for and receives aid for a second academic year during the same award year (or period of enrollment).

ENROLLMENT AS A REGULAR STUDENT IN AN ELIGIBLE PROGRAM

With limited exceptions to be discussed later, to receive funds under the SFA programs, a student must be enrolled as a regular student in an eligible program. A regular student is enrolled for the purpose of obtaining a degree or certificate offered by the institution.

The regulatory definition of an eligible program is based on requirements found in the statutory definitions for an eligible institution. There is an important distinction between the definition of an eligible program and the definition of an eligible institution. Some programs at an eligible school may not meet the requirements for an eligible program due to the length of the course, the admission requirements, or other factors, although the school as a whole meets the definition of an eligible institution and participates in the SFA programs. It is important that you carefully study the material in Chapter Three on program eligibility because program eligibility affects whether the student may receive aid.

Three aspects of the definition of an eligible program are especially important: the educational credentials the program awards, its length, and, for "short courses," compliance with certain qualitative factors regarding graduation and placement percentages. These qualitative factors are discussed in Chapter Three.

Educational credentials

Regarding educational credentials awarded, with the exception of the exemptions for preparatory work and teaching certificates discussed on the next page, an eligible program must either lead to a certificate, degree, or other recognized educational credential or be at least a two-academic-year program that is acceptable for full credit toward a bachelor's degree. These requirements also apply to programs of study abroad that have been approved for credit by eligible institutions. Of course, to receive aid, a student in such a program must be enrolled as a regular student at the eligible institution that approved the course. At a proprietary institution of higher education or a postsecondary vocational institution, the program must lead to a certificate or degree and provide training to prepare students for gainful employment in a recognized occupation. (For the Pell Grant Program, an exception is granted for English as a Second Language [ESL] training. See Chapter Three for an extensive discussion of this and other program eligibility issues.)

TWO EXCEPTIONS TO THE "ELIGIBLE PROGRAM" REQUIREMENT

There are two cases where a student does not have to be enrolled in an eligible program to receive a FFEL or Direct Loan.

Preparatory Coursework: Students who are not enrolled in degree or certificate programs are eligible for Federal Family Education Loans or Direct Loans for a period of up to one year if they are taking courses that are necessary for the student to enroll in an eligible program. These courses must be part of an eligible program otherwise offered by the school, although the student does not have to be enrolled in that program. For instance, a student who has already received a B.S. degree might need an additional 12 hours of specialized undergraduate biology and chemistry coursework to enroll in a graduate program. If a student is enrolled at least half time in these prerequisite courses and the courses are part of an eligible program, the student is eligible for loans for one consecutive 12-month period beginning on the first day of the loan period for which the student is enrolled. (The loan limits for first-year undergraduates apply. However, if the 12-month period represents more than one academic year, the student may receive multiple loans.)

Teacher Certification: Another exception involving the FFEL, the Direct Loan, the Perkins Loan, and the Federal Work-Study programs allows eligibility for students who are enrolled at least half time in required teacher-certification programs, even though the teacher-certification program does not lead to a degree or certificate awarded by the school (e.g., the certificate may instead be granted by the state). The program must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach, or the state in which the student is completing the program. This exception is not intended to cover optional courses that the student elects to take for professional recognition or advancement or courses that the school recommends but are not required for certification. The school should document that the courses are required by the state for teacher certification. For purposes of the FFEL and Direct Loan programs, students are considered fifth-year undergraduates; therefore, the loan limit is $5,500, plus an additional $5,000 in unsubsidized loans if the student is classified as independent.

Minimum program length

The minimum length required for an eligible program varies with the type of institution. Special requirements for programs of less than 600 hours have recently been incorporated in the regulations. See Chapter 3.

Program length not only determines a program's eligibility; it also affects the amount of aid that can be awarded to students in the program. For example, the amount of a student's Federal Pell Grant, Stafford Loan, or Direct Loan is reduced if the program is less than an academic year. (See Chapters Four and Ten.)

ABILITY TO BENEFIT

To receive aid from the SFA programs, a student must be academically qualified for study at the postsecondary level. A student with a high school diploma or its recognized equivalent is considered academically qualified for SFA purposes.

The SFA regulations identify several recognized equivalents to a high school diploma. A General Education Development Certificate (GED) or a State Certificate is a recognized equivalent of a high school diploma. In

addition, a school may admit into programs that are at least at the associate-degree level a limited number of students who do not have high school diplomas but who have excelled academically in high school and have met the school's admissions standards. Similarly, a student's postsecondary school academic transcript is considered the equivalent of a high school diploma if the student has completed a program that is at least two years in length and is acceptable for full credit toward a baccalaureate degree.

Alternatives to high school diploma

An SFA applicant who does not have a high school diploma or recognized equivalent can be determined to be academically qualified if he or she passes an independently administered test that has been approved by the Department or a process that has been both prescribed by the state in which the school is located[3] and approved by the Department.

On August 16, 1994, the Department published a Notice of Proposed Rulemaking to add regulations governing the approval and administration of tests. Until these regulations become final, schools should continue to follow the guidance provided in the **Federal Register** notice of December 30, 1992 and "Dear Colleague" letters.

Independent administration

The **Federal Register** of December 30, 1992 contains a list of approved tests, as well as testing requirements. This list was supplemented by Dear Colleague letter GEN 93-21, dated August 13, 1993. An approved test must be administered and graded by an individual or organization that has no current or prior fiscal interest in the school, other than an "arms-length" arrangement to administer the examination. Thus, the test may not be given or scored by a current or former employee, consultant, or student of the school, an owner or member of the board of directors, a person with a financial interest in the school, or a relative of any of these individuals. An exception is made for testing or assessment centers at degree-granting schools as long as these centers are independent of the admissions process and were in existence as of December 19, 1990.

Generally, the school will arrange with one or more parties to administer approved tests to those students who do not have high school degrees or recognized equivalents. The **Federal Register** notice contains recommendations for sources of independent test administrators:

- High school guidance counselors;
- Qualified professional educators;
- Regional and area Armed Forces Commands staff who are experts in education, training, and human resource development;
- Test and measurement experts; or
- Human resource development professionals.

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[3] In the case of a school with branch campuses, the process must have been approved by the state in which the branch the student is attending is located.

The use of a public or nonprofit center that offers assessment or testing services, provided the center operates independently of the postsecondary school, is also suggested.

Approved tests

A list of the tests that have been approved by the Department is shown on pages 2-10 and 2-11. A school may use more than one of the tests shown on the list. Note that this list does not include state tests that have been approved by the Department. The Department has approved all state tests that are required for all students entering a state's public postsecondary schools and assess the basic verbal and quantitative skills of these students. (If a state test meets the criteria for approval, all schools in the state may use it even if they are not public.) State examinations that do not meet these criteria may be submitted to the Department for review under the normal test-approval procedures.

Selection of a test

When selecting a test, the school should consider the following:

Relevance of test to the educational program. Are the skills and abilities assessed important for the successful completion of the student's planned program of study?

Level of difficulty of the test. Is the overall level of difficulty appropriate to the population of prospective students being assessed and to the coursework required in the program?

Native language. If the student's program will be taught in a language other than English, the student should be permitted to take the test in that language.

Tests for handicapped students. Students with physical handicaps should receive appropriate assistance in test-taking, in accordance with the guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.

Administering and scoring the test

All tests must be administered in accordance with the procedures specified by the test publisher. This includes, but is not limited to, time limits for completion, rules on how often and within what time frame the test may be re-administered, whether the test may be given verbally, and so on. If a test has multiple parts, *all* parts must be used in order for the test to be valid. In evaluating test results, the passing score cannot be more than one standard deviation below the mean for that examination for that type of program/curriculum. Test publishers routinely provide such information in their manuals.

Tests Approved by the Department

- ACT Assessment
- Adult Basic Learning Examination (ABLE)- Level 3
- APTICOM -Educational Skills Development Battery; and three parts of Aptitude Test Battery (Pattern Visualization, Numerical Reasoning and Word Meaning)
- Aptitude Based Career Decision Test (ABCD)
- Armed Services Vocational Aptitude Battery (ASVAB) - any form
- Assessment and Placement Services (APS) - (Four Tests) Battery, Form B
- ASSET - Forms A, B, and C
- Basic English Skills Test (BEST)
- Career Planning Program (CPP) Abilities Measurement, Level 2
- Career Program Assessment Test (CPAT) - Forms A and B
- Combined English Language Skills Assessment (CELSA)
- Comprehensive English Language Test for Learners of English (CELT) Forms A and B (For non-native speakers of English entering programs in which English is the language of instruction. This test can be used for students enrolled in ESL programs or programs with ESL components.)
- Comprehensive Tests of Basic Skills - Edition 4, Levels 19/20, and 21/22
- Computerized Placement Test (CPT)
- Degrees of Reading Power - Standard and advanced forms
- Descriptive Tests of Language Skills (DTLS)
- Descriptive Tests of Mathematics Skills (DTMS)
- Differential Aptitude Test - Forms V and W
- ETS Tests of Applied Literacy Skills (TALS) - Forms A and B
- Flanagan Industrial Tests - Forms A and AA, Entire Battery only
- General Education Development Tests (GED)
- IRCA Pre-Enrollment Appraisal: Comprehensive Adult Student Assessment System - All four components must be used. Approved for students enrolling in ESL programs.

Tests Approved by the Department

- Job Training Assessment Program (JOBTAP) - All four sections must be given, i.e., Training and Work Manuals, Work Rules and Procedures, Follow-the-Rule Arithmetic, and Find-the-Rule.
- Metropolitan Achievement Tests - MAT-6, Advanced 2, Basic Survey Battery Forms L and M
- Nelson-Denny Reading Tests - Forms E or F
- P.A.R. Admissions Test - Alternate Form (English version) and Spanish version
- Preliminary Scholastic Aptitude Test (PSAT)
- Prueba de Aptitud Academica - For use where Spanish is both the student's native language and the language of instruction
- Scholastic Aptitude Test (SAT)
- Secondary Level English Proficiency Test (SLEP) - Forms 1, 2, or 3; Cut-score is the 50th percentile
- Spanish Assessment of Basic Education Test (SABE) - Level 6; Cut-score is 2/3rds of a standard deviation below the mean
- Stanford Achievement Tests, Abbreviated, 8th Edition - Form J, Task 1, 2, and 3, Complete and Basic Batteries
- Stanford Test of Academic Skills - 2nd Edition, Forms E and F, Levels 1 and 2
- Stanford Test of Academic Skills - 3rd Edition, Forms J and K, Levels 1, 2, and 3
- Test of Adult Basic Education (TABE) - Level A, Forms 5 and 6 or survey form, Level D, Forms 5 or 6, survey form
- Test of English as a Foreign Language (TOEFL) - Cut-score must be at least 450
- Test used by States for assessing the basic skills of entering postsecondary students - Examples of applicable tests are those approved for such use in state education systems in New Jersey, Florida, and Texas.
- Wonderlic Personnel Test - Forms I, II, APT, and EM
- Wonderlic Scholastic Level Exam- Forms IV, V, T-51, and T-71
- Wonderlic Scholastic Level Exam (Spanish, Puerto Rican Spanish, Cuban Spanish, Mexican Spanish) - Forms IV and V

Note: These are the tests approved by the Department and printed in the Federal Register as of December 30, 1992, and supplemented by "Dear Colleague" Letter GEN-93-21. The contact names and numbers of the test publishers can be found in those publications. If additional tests are approved, you will be notified through "Dear Colleague" Letters.

Provision of GED program

In addition to assuring that students who do not have high school diplomas or recognized equivalents successfully pass ability-to-benefit tests, the school must make a GED-preparatory program available to such students. The course does not have to be provided by the school itself, and the school is not required to pay for the costs of the program. However, the school must locate a program that is reasonably accessible to its students. For example, the school should locate a program that is offered at a place that is convenient for its students and take reasonable steps to ensure that the scheduling of the student's program permits participation. The law states that the GED program must be proven successful. A school may consider that all programs conducted by its state and local secondary schools meet this criteria. In addition, a program qualifies if the school has documentation that statistically demonstrates the success of the program.

A student without a high school diploma or recognized equivalent is not required to enroll in a GED program; however, a school can make this a requirement for admission.

Although a student may not receive any SFA funds for study in all or part of a GED program, he or she remains eligible for SFA funds for enrollment in full-credit, nonremedial courses. (Participation in the GED program is not considered to be simultaneous enrollment in a high school program.) A student enrolled solely in remedial coursework, however, is not eligible for SFA funds. See the following discussion on enrollment in remedial courses.

Duration of student test results

A student who has taken an approved, independently administered test within the last 12 months may submit the official notification of the test score to the school to demonstrate his or her ability to benefit. If the school accepts the results of a previously administered test, it must obtain documentation that the test and test administration meet the federal requirements. If a student withdraws from school and then reenrolls more than 12 months after taking the test, he or she must take a new test.

REMEDIAL COURSEWORK FOR STUDY AT THE POSTSECONDARY LEVEL

Remedial coursework prepares a student for study at the postsecondary level. If a student is enrolled solely in a remedial program, the student is not considered to be in an eligible program and thus is not eligible for SFA funds. Additionally, if a student's acceptance into the eligible program is contingent upon the completion of the remedial work, the student cannot be considered to be enrolled in the eligible program until the remedial work is completed. The one exception to this rule, for the FFEL and Direct Loan programs only, is enrollment in preparatory coursework, which may be remedial in nature. (See page 2-7.)

If the student is enrolled in a regular program that includes a limited amount of remedial coursework, payment for that coursework is permitted as long as the work is at least at the high-school level (as determined by the state legal authority, the school's accrediting agency, or the state agency recognized for the approval of public postsecondary vocational education).

Determining enrollment status

A problem may arise in determining the enrollment status for a student who is taking remedial coursework because the school may be giving no academic credit or only reduced academic credit for the coursework. To include noncredit remedial hours in the student's enrollment status for financial aid payments, the school must determine the number of hours of study the remedial course requires (both classroom and homework hours) and compare that number with the hours required for similar nonremedial courses. The school should then use the same number of credits for the remedial course as for a nonremedial course that requires a comparable number of classroom and homework hours. (Clock-hour schools should use the number of classroom hours attended in the remedial program.)

To determine a student's enrollment status, the credits or clock hours assigned to the noncredit remedial course are simply added to the credits or clock hours of regular coursework. This affects whether the student is paid as a full-time, three-quarter time, half-time, or less-than-half-time student in the Pell Grant Program and whether the student is considered to be enrolled at least half time for the FFEL and Direct Loan programs. When calculating the student's cost of attendance, be sure to include the tuition paid for noncredit remedial work.

Limit on remedial coursework

A school may not take into account more than one academic year's worth of noncredit remedial coursework for a student (30 semester or trimester hours, 45 quarter credit hours, or 900 clock hours). ESL courses do not count against these limits.

High school coursework/ simultaneous enrollment excluded

Noncredit remedial hours cannot be included in a student's enrollment status or cost of attendance if the remedial course is part of a program that leads to a high school diploma or its recognized equivalent, even if that course is required for completion of the postsecondary program. In other words, students may never receive funds for GED or high-school training, even if the course is offered at a postsecondary school. It is also prohibited for a student to receive SFA funds while he or she is simultaneously enrolled in an elementary or secondary school. Thus, a high-school student who is taking vocational training in the afternoon or weekends is not eligible for SFA funds, even if his or her entire program at the postsecondary school is postsecondary in nature. In addition, noncredit remedial courses cannot be included unless they would adequately prepare the student for postsecondary study after one year's time.

ENROLLMENT STATUS

Half-time enrollment is not a requirement to receive aid under the Federal Pell Grant Program or the campus-based programs. See Chapter Four for information on the effect of enrollment status on students' awards under the Pell Grant Program. See Chapters 5 through 8.

The FFEL and Direct Loan programs do require a student to be enrolled at least half time to receive aid. A half-time student must be taking at least one-half the workload of a full-time student.

As specified in the April 29, 1994 regulations, the full-time load is defined by the school. This measurement may differ from the one used for other purposes at the school, such as for purposes of the registrar's office. The school's full-time definition for a program must be used for all students enrolled in that program and for all SFA purposes. For undergraduate students, but not for graduate students, the school's financial aid office must define full-time status to meet at least the following minimums:

- twelve semester hours or twelve quarter hours per academic term in a term-based educational program;
- twenty-four semester hours or 36 quarter credit hours per academic year for an nonterm educational program using credit hours. (The prorated equivalent must be used for programs of less than one academic year.);
- twenty-four clock hours per week for an educational program using clock hours;
- for a student who is taking a combination of courses offered in semester credit, quarter credit, and/or clock hours, prorated percentages of the minimums for credit- and clock-hour measurement equal to at least one;
- a series of courses or seminars that equal 12 semester or quarter hours over a maximum of 18 weeks; or
- the work portion of a cooperative education program in which the amount of work performed is equivalent to the academic workload of a full-time student.

Example

The student is at a school that uses academic terms. For the first term, the student is taking 6 semester hours and 3 quarter hours and is also taking 9 clock hours per week. To determine if the student is full time, divide each type of hour by the minimum requirement for full time and then add the fractions:

6/12 + 3/12 + 9/24 = .5 + .25 + .375 = 1.125

Since the result is greater than or equal to one, this student would be considered full time.

A student taking only correspondence study is never considered to be enrolled more than half time.

Note that a student's enrollment status is also important for deferment purposes. Direct Loan borrowers and new FFEL borrowers after July 1, 1993 are eligible for deferments as half-time students even if they do not receive additional loans during the deferment period. Previously, a student who had FFEL Program loans that had entered repayment could qualify for an in-school deferment only if he or she were enrolled full time or enrolled half time or three-quarter time and again borrowing an FFEL loan for the period covered by the deferment. (Students who first borrowed prior to the Amendments of 1986 had more stringent requirements for deferment.) See Chapter Ten, Section Two for more information.

SATISFACTORY PROGRESS

The regulations for satisfactory progress were initially published in October 1983 and amended on December 1, 1987, April 29, 1994, and November 29, 1994. In order for the school to monitor the statutory requirement that a student be making satisfactory progress, the regulations require schools to develop and apply a consistent and reasonable standard of academic progress, which must contain elements specified in the regulations.

Consistency within categories of students

The school's satisfactory progress policy for students receiving aid under the SFA programs must be at least as strict as the policy used for students who do not receive SFA aid. The policy must be applied consistently to all students within identifiable categories of students (such as full-time or part-time, graduate or undergraduate), and must conform to the standards of the school's accrediting agency if the school is accredited by a nationally recognized accrediting agency that has established satisfactory progress standards.

Qualitative measurements

The school's academic progress policy must include a qualitative measure of the student's progress, such as a required cumulative grade point average.

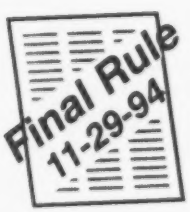
The school may determine its own requirements, as long as it at least meets the minimum required by law and regulations. The law specifies that by the end of the second academic year, the student must, in general, have either a "C" average or its equivalent or have academic standing consistent with the requirement for graduation from the program. If a school does not use letter grades, a school's satisfactory progress policy should define the "equivalent of a 'C' average." Also, if a school permits less than a "C" average, it must be able to document that the average it uses is consistent with graduation requirements.

In addition, schools may use a graduated grade point requirement, rather than a single fixed standard throughout the program. For instance, a school might set a minimum grade average of 1.75 (using a scale of 0.0 to 4.0) at the end of two academic years in a four-year degree program. Even though the school requires at least a 2.0 average for graduation, it can permit a lower standard after two years if its policy requires progression toward those graduation requirements.

Quantitative progress

A grade point average alone is not a sufficient measure of progress. For instance, a student might enroll for 12 credits a semester but withdraw from two classes that he or she was failing. The student might have an "A" average in the two remaining classes but still not be progressing towards graduation at an acceptable pace. To accurately measure the student's progress in the program, the satisfactory progress policy must have a quantitative measure (the number or percentage of courses, credit hours, or clock hours completed), as well as a qualitative measure (the grade point average in those courses completed).

Maximum time frames and increments



To quantify academic progress, a school must set a maximum time frame in which a student is expected to finish the program. The November 29, 1994 regulations specify that for an undergraduate program, the maximum time frame may not exceed 150 percent of the published length of the program measured in academic years, terms, credit hours attempted, or clock hours completed, as appropriate. For instance, if the published length of an academic program is 120 credit hours, the maximum time frame established by the school could not exceed 180 attempted credit hours (120 times 1.5).

To ensure that a student is making sufficient progress throughout the course of study, the school must divide the program into *equal* evaluation periods called increments. An increment may not be longer than half the program or one academic year, whichever is less. In other words, in a 700-hour program, an increment could not exceed 350 hours. In a 2000-hour program, an increment could not exceed 900 hours, if the school used a 900-hour academic year definition. Increments are also expected to coincide with payment periods.

Once the school defines the length of each increment, at the end of each increment, it must compare the number of hours the student attempted with the number of hours the student successfully completed to see whether the student is progressing at a rate that will allow him or her to finish the program within the maximum time frame.

Example

The preamble to the October 6, 1983 regulation gave an example of a maximum time frame that a school might set: 5 academic years of work attempted for a student enrolled in a program that requires 4 academic years of work for graduation.

To express this example in terms of credit hours, imagine that two students, George and Jane, are enrolled in a 4-year microbiology program that requires 120 semester credits for graduation. Under the school's policy, the maximum time frame for completing the program is 150 credit hours (5 academic years of work). Both students enroll in 5 classes each semester (15 credits per semester). After one year, George has earned 27 credits and Jane has earned 30 credits. After two years, George has earned 45 credits and Jane has earned 51 credits. Are George and Jane making satisfactory progress in their course of study?

Solution

Because the school has set a maximum time frame of 150 semester hours to complete a 120 semester hour program, a student must successfully complete 80 percent of the work attempted to be making satisfactory progress. (120 ÷ 150 = .8)

Both George and Jane attempted 30 credit hours in the first year.

80% x 30 credit hours attempted = 24 credit hours

Because both students successfully completed at least 24 credit hours in their first year, they both were making satisfactory progress when entering their second year of study.

After their second year of study, in order to be considered to be making satisfactory progress, they must have successfully completed 80 percent of 60 credit hours.

80% x 60 credit hours attempted = 48 credit hours

Therefore, Jane was making satisfactory progress because she had completed 51 credits, but George was not because he had earned only 45 credits.

Students with other than full-time enrollment status

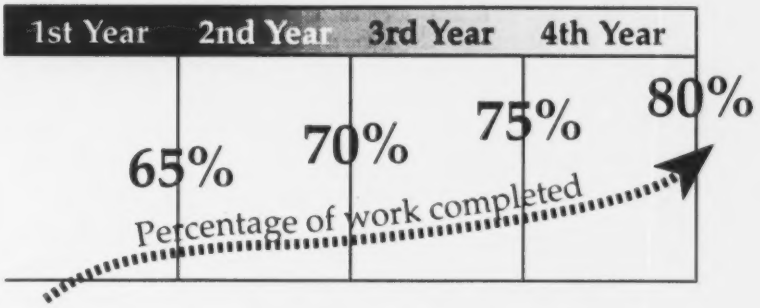
In the preceding example, the school has established a minimum percentage of hours the student must complete each academic year. By setting a percentage, rather than a fixed number of hours or credits that must be completed each academic year, it is very easy to adjust for changes in a student's enrollment status from one period to the next or to develop different standards varying with enrollment status. For instance, if in the second academic year, George had enrolled for only 15 credit hours, his progress would have been measured as follows:

80% x 45 credit hours attempted (30 in first year; 15 in second) = 36 credits

If George had successfully completed 9 of the 15 credits attempted in the second year, he would be considered to be making satisfactory progress (27 completed in the first year, plus 9 in the second equals 36 credits, the minimum which must be completed to achieve an 80 percent completion ratio).

Graduated completion percentages

As was the case for the qualitative standards, a school may use a graduated completion percentage for each year. For instance, a school might use a more lenient completion standard in the student's first academic year, but gradually increase the completion standard during the course of study to ensure that the student will complete the program requirements within the maximum time frame.



Time frames at clock-hour schools

At some clock-hour schools, a student is given "credit" for every hour attended and thus the hours attempted are always equal to the hours earned. This is commonly the case at beauty or barber schools. In such cases, the quantitative standard must be based on calendar time (in weeks or months). For instance, if a school offers a 900-clock-hour program that normally takes 8 months to complete, it could set a maximum time frame of 12 months for completion of the program. Thus a student would have to complete the first 450 hours of the program within 6 months to be considered to be making satisfactory progress.

On the other hand, some clock hour schools structure their programs with individual subject courses that a student attempts and can either pass or fail based upon the student's performance. In other words, even though the student has attended the clock hours for a given subject, he or she may not get credit for those hours of attendance because of the grade attained. (This is similar to credit hour schools where credits may be withheld despite the hours having been attempted and attended.) In such cases, examination of the clock hours successfully completed as a percentage of the hours attempted, as was discussed earlier, is appropriate.

The regulations further state that the school's satisfactory progress policy must explain how withdrawals, grades of "incomplete," courses which are repeated, and noncredit remedial coursework affect the determination of the

student's progress. A school must also have procedures for the student to appeal a determination that he or she is not making satisfactory progress and provide specific procedures for the student to reestablish that he or she is maintaining satisfactory progress.

Additional elements of a progress policy

The quantitative and qualitative standards must be cumulative and must include all periods of the student's enrollment, even those for which the student did not receive aid from the SFA programs.

Standards must be cumulative

Bear in mind that other than the minimum qualitative standard of a "C" average by the end of the second academic year (or an average consistent with graduation standards) and the minimum quantitative standard of no more than 1.5 times the normal published time frame, the Department does not regulate a school's standards of satisfactory progress; instead, it merely stipulates what the components of the policy must be.

If a student does not meet the school's standards of satisfactory progress, he or she may not receive further aid from the SFA programs, unless the school uses its discretion to waive the satisfactory-progress requirement. The statute gives specific examples of cases in which the school might choose to waive the standards for a student. Some examples are an injury to the student, an illness of the student, or the death of a relative of the student. Schools that permit waivers of satisfactory-progress standards must have written procedures explaining when a student's special circumstances merit the waiving of the satisfactory-progress standards.

Waivers for special circumstances

If a student is deemed not to be making satisfactory progress but later meets the standards, his or her eligibility for SFA funds is reinstated. A student may be paid for the payment period in which he or she regains satisfactory progress, but not for any payment periods in which the student did not meet the standards. For FFELs and Direct Loans, a loan period may not include any periods in which the student did not meet the standards.

Reinstatement of aid

LOAN DEFAULTS AND GRANT OVERPAYMENTS

In general, a person is not eligible for SFA funds if he or she is in default on an SFA loan or owes a repayment on an SFA grant. (This also applies to a parent seeking a PLUS loan (either under FFEL or the Direct Loan Program). For the parent to receive a PLUS loan, neither the parent nor the student may be in default or owe a refund on SFA funds.) In addition, the student may not have property subject to a judgment lien for a debt owed to the United States. For example, if the IRS had placed a lien on the student's property, failure to pay this lien or to make satisfactory arrangements for repayment would make the student ineligible for SFA funds. The General Provisions regulations contain several exceptions to these blanket rules, as noted in the following discussion of overpayments.

Overpayments

Eliminating Pell Grant overpayments

If a student receives a Federal Pell Grant overpayment, he or she may continue to receive SFA funds if the overpayment can be eliminated by reducing the subsequent Pell Grant payments in the same award year. If the overpayment was the result of the school's error and the school cannot eliminate the overpayment in the same award year, the school may continue to pay the student SFA funds if the student agrees in writing to repay the Pell overpayment within six months. If the overpayment resulted from the student's error, the student cannot receive additional SFA funds until he or she repays the overpayment in full. (See Chapter Four, Section Six for more information on Pell Grant overpayments.)

Overpayment hold file

If a school is unable to recover a Pell Grant or FSEOG overpayment due from the student, the school must report the overpayment to the Department. Reporting this information will result in the student's future FAFSAs being flagged for resolution when they are received by the Central Processing System. The action taken depends on when the overpayment occurred. Pell Grant overpayment records reported to the Department prior to approximately 1986 are in the Department's Overpayment Hold File. (FSEOG overpayments were not recorded prior to 1986.) When a student for whom an overpayment was reported prior to 1986 applies, he or she will receive a SAR with no EFC calculated and with a comment explaining that a repayment is owed and that the student should contact the Department of Education.

Records reported to the Department for Federal Pell Grant and FSEOG overpayments after approximately 1986 are tracked in the NSLDS. The student will receive an EFC with a comment regarding the steps to be taken to resolve the overaward. In addition, a "C" will be printed next to the EFC, indicating that the financial aid administrator must resolve the issue before payment is made.

FSEOG, SSIG, and Perkins overpayments

A student who receives a FSEOG, SSIG, or Federal Perkins overpayment may continue to receive SFA funds if the overpayment can be eliminated by adjusting subsequent financial aid payments, other than Pell Grants, within the same academic year. For instance, if the student's combined aid from the Pell Grant, FSEOG, and Perkins Loan programs exceed his or her financial need, the student can continue to receive SFA funds if the later disbursements of the FSEOG or Perkins Loan for that academic year can be reduced by the amount of the overpayment. If a reduction of these later disbursements is insufficient to eliminate the overpayment, the school must eliminate it by canceling subsequent disbursements and returning to the program accounts all or part of the disbursements already made. This may include having the student repay funds that were disbursed directly to him or her. If the student is required the repay funds, he or she cannot receive additional SFA funds until the full overpayment has been repaid. (See Chapter Five, Section Two for more information on FSEOG and Perkins overpayments.)

Loan Defaults

Defaulted but repaid in full

If a student has defaulted but has repaid the loan in full, the student is eligible for all SFA funds. This is also the case if the student and the holder of the loan agree on a compromise settlement and the borrower pays that compromised amount. It is not relevant whether repayment was completed voluntarily or otherwise (that is, through IRS offset or wage garnishment). Note that a school may consider that the student's prior default on a loan indicates an unwillingness to repay future loans and thus deny Perkins Loan funds even if the student has repaid the defaulted loan in full.

Satisfactory arrangements for repayment

If a student is in default on a Federal Perkins Loan (including NDSL), a FISL, Federal Stafford, Federal Direct Loan, Federal SLS[4], ICL, Federal Consolidation Loan, or Federal Direct Consolidation Loan or on a Federal PLUS loan or Federal Direct PLUS Loan he or she received as a parent, the student may continue to receive SFA funds if he or she has made satisfactory repayment arrangements with the holder of the loan. Before a school may pay a student who is in default, it must receive a written statement from the holder of the loan stating that the student has made satisfactory repayment arrangements. For FFEL loans, ICLs, Direct Loans, NDSLs, and Perkins Loans assigned to the Department of Education, a student is considered to have made "satisfactory arrangements for repayment" after making six consecutive full, voluntary payments on time. Although the student is again eligible for aid at that juncture, the loan cannot be rehabilitated under the Direct Loan Program or the FFEL Program (assuming the lender agrees) until 12 consecutive full, voluntary payments have been made on time. At that point, the student also becomes eligible for in-school deferment on the loan. (See Chapter Ten, Section Six for more information on loan rehabilitation provisions.) A defaulted Direct Loan will automatically be rehabilitated after 12 consecutive full, voluntary payments have been made on time.

With respect to an ICL, an NDSL, or a Perkins Loan that has not been assigned to the Department, the school still collecting the loan has discretion in determining what constitutes satisfactory repayment arrangements. For loans in this category, the letter confirming satisfactory arrangements should be obtained directly from the school that made the loan.

Loans discharged in bankruptcy

Students who have discharged loans in bankruptcy are eligible for grants, work-study, and loans. Prior to October 22, 1994, students who had defaulted loans discharged could not receive loan funds unless they reaffirmed the discharged debt and made satisfactory repayment arrangements. However, as a result of changes made by the Bankruptcy Reform Act of 1994, these students are no longer required to reaffirm the loans before receiving new loans.

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[4] Federal SLS Loans include Auxiliary Loans to Assist Students and PLUS Loans to students, former names of SLS loans.

Loans canceled for total and permanent disability

Beginning July 1, 1995, a borrower whose loan was canceled due to total and permanent disability may receive all SFA funds. If the student wishes to borrow another SFA loan, the student must obtain a certification from his or her doctor that the disability condition has improved and that the student has the ability to engage in substantial gainful activity or school attendance. The student must also sign a statement indicating that he or she is aware that his or her new SFA loan cannot be canceled in the future on the basis of any present impairment, unless that condition substantially deteriorates to the extent that the definition of total and permanent disability is met. Previously, to borrow again under the same loan program, the borrower was required to obtain the doctor's certification, sign the aforementioned statement, reaffirm the previous loan amount, and make satisfactory repayment arrangements. Note that these provisions apply only if the student wishes to receive the same type of loan as the one that was canceled.

Certification required

The student must certify that he or she is not in default on an SFA loan or does not owe an overpayment on an SFA grant. A "Certification Statement on Refunds and Default" is printed on Part 1 of the SAR. However, the school may choose to collect the certification on other documents. If the school chooses to collect this statement on another document, the school should be sure that the document additionally requires the student's SSN. The law requires that the student include this information with the certification, but the line is omitted on the SAR because the student's SSN is already printed on the SAR.

Although the NSLDS makes it easier for an institution to verify a student's eligibility, a school is required to resolve any conflicts between the NSLDS information and other information it has received from the student. For example, if the NSLDS indicates that a student is not in default but the school has documentation indicating that the student is in default, the school may not pay the student or certify a loan application until the conflict is resolved.

Effect of Loan Status on Student Aid Eligibility

(As of 7/1/95)

Loan Status	FFEL/Direct Loans	Federal Perkins*	Grants and FWS
Discharged in bankruptcy	Yes	Yes	Yes
No default/ Canceled for disability	Yes—if student meets c & d below	Yes—if student meets c & d below	Yes
Default	No	No	No
Default/Paid	Yes	Yes	Yes
Default/ Student makes satisfactory repayment arrangements	Yes	Yes	Yes
Default/ Written-off	No (unless student meets a & b below)	No (unless student meets a & b below)	No (unless student meets a & b below)
Default/ Compromise	Yes	Yes	Yes
Default/ Canceled for disability	Yes—if student meets c & d below	Yes—if student meets c & d below	Yes
Default/Loan rehabilitated	Yes	Yes	Yes

(a)The student aid applicant has reaffirmed the debt.
(b)The applicant has made a payment on the loan.
(c) The applicant has obtained a certificate from a physician that the disability has improved and that the applicant has the ability to engage in substantial gainful activity or to attend an institution of postsecondary education.
(d) The applicant has signed a statement indicating the loan cannot be cancelled in the future on the basis of any present impairment, unless the condition worsens to the extent that the definition of total and permanent disability is met.

*Federal Perkins Loan regulations allow the financial aid administrator to deny eligibility for additional loans if he or she has evidence that the applicant is unwilling to repay the loan.

Default matches

Previously, the Department conducted two matches to determine whether an applicant had defaulted on a federal student loan:

1. the Title IV Default Match, which contained information on all defaulted federal student loans assigned to the Department as well as overpayments on grants, and

2. a Guaranty Agency Default Match, which contained data on defaulted federal student loans held by guaranty agencies.

For the 1995-96 award year, the NSLDS replaces them. The NSLDS is a new database established under contract with the Department to collect student loan information from guaranty agencies, lenders, schools, and the Department's Title IV Default file. Information about all students who have previously borrowed under the SFA loan programs will be maintained in the data base and updated on at least a monthly basis with information provided by both guaranty agencies and schools.

The NSLDS page will appear in Part 1 of every SAR, directly after the FAA Information page. Both the Guaranty Agency and the Title IV Default match flags and comments have been replaced by the NSLDS flag and comments. It is anticipated that this new matching program will provide more timely and complete information than was previously possible.

An applicant who is found to be in default and who has not made satisfactory arrangements to repay the loan or who owes a Federal Pell Grant or a FSEOG overpayment will receive a comment on the NSLDS page of the SAR directing the applicant to contact the Department or appropriate guaranty agency. In the case of a defaulted loan that is held by a guaranty agency, the name and telephone number of the guaranty agency holding the loan will appear on the NSLDS page.

If a student makes satisfactory arrangements to repay a defaulted loan (see "Default with Satisfactory Arrangement" in the chart), the Department or the guaranty agency will send the student documentation of the resolution. The student must submit this documentation to the school to reestablish eligibility for SFA funds.

Other Hold Files

Verification hold file

If a student has unresolved issues from a previous verification, his or her records will be placed in the Department's Verification Hold File. A student whose application is in the "Hold File" will receive a SAR with no EFC calculated. The SAR will instruct the student on how to resolve the issue. Either comment 8 or 18 will appear.

Drug abuse hold file

The Anti-Drug Abuse Act of 1988 gives courts the authority to suspend eligibility for federal student aid when sentencing an individual convicted of possession or distribution of a controlled substance. Students who apply for federal student aid receive the following warning on their SARs: "As is more fully set forth in Section 5301 of the Anti-Drug Abuse Act of 1988, if you are convicted of drug distribution or possession, your eligibility for Title IV student financial aid is subject to suspension or termination." A student who has been denied aid will be placed on the Department's Drug Abuse Hold File upon direction from the Department of Justice. The student will receive a SAR with no EFC calculated and a comment instructing him or her to contact the Department of Education if the student wishes to contest the finding.

(Also note that under the Anti-Drug Abuse Act, schools that receive campus-based funds are required to certify on a form provided by the Department that they will provide a drug-free workplace. This is an institutional eligibility requirement, and is therefore discussed in Chapter Three, Section Two.)

POSSESSION OF A VALID SOCIAL SECURITY NUMBER

The Higher Education Amendments of 1992 require that all students provide a Social Security Number (SSN) to be eligible to receive SFA funds. Effective for the first time in 1994-95, matches are being conducted between the Social Security Administration and the Central Processing System to verify the correctness of the student's number and the correspondence of the name and date of birth to that number. Previously, the CPS checked only to see if the SSN the student reported was within a valid range of Social Security Numbers that had been issued.

In contrast to data matches such as that for the student's immigration and Selective Service status, no comment appears if the match confirms the correctness of the student's SSN. Please note that, as is the case with all student data, if the school uncovers conflicting information, it must resolve those conflicts before paying the student, even if no comment appears on the SAR.

Discrepancy on date of birth

If a student's name and SSN match but the Social Security Administration shows a different date of birth, the student will receive a comment, and the school should resolve the discrepancy. (Often it will be because the student has reported the current year as his or her year of birth.) No further action is required through the CPS.

Discrepancy on SSN

If the SSN does not match, the student will initially receive reject code "S" and comment 24, instructing the student to verify or correct the SSN. If the student confirms that the SSN is correct and can provide evidence to the financial aid administrator, the student may verify the number on the

SAR, and an EFC will then be calculated. Note that subsequent corrections or resubmissions of other SAR data do not go back through the Social Security Administration match, once the student verifies that the SSN is indeed correct.

Discrepancy on name

If the SSN and the date of birth match but there is a discrepancy in the student's name, the student will receive a SAR with a "C" flag and comment 61, telling the student to either correct the appropriate items or contact the Social Security Administration to resolve the problem. This is most likely to happen when a student has used a nickname or when a student has failed to inform the Social Security Administration of a name change (usually as a result of marriage). Upon receipt of documentation from the student that the submitted SSN is correct, the school may disburse funds. The application does not need to be resubmitted to the processor on this basis. Comment 61 will print only on the original transaction; it will not print on subsequent SARs.

No match conducted

If no match was conducted, the CPS will check to see whether the reported SSN is within a valid range. If the SSN is within a valid range, the student will receive either comment 59 (if the student's record was not sent to the Social Security Administration because he or she did not provide a last name) or comment 58 and a "C" flag (if the Social Security Administration could not perform the match). For cases in which the SSN is within a valid range, no resubmission is required, as long as the institution maintains documentation of the accuracy of the SSN. However, if the student did not provide a last name, the student should submit a correction to supply the name. If the student must resubmit the SAR (either to supply a name or to correct other data), the data will be transmitted to the Social Security Administration, and the aid administrator must be careful to examine the results of the match when they are received from the CPS. If the SSN is not within a valid range, the student will receive a rejected SAR and comment 23 (stating that it appears that the SSN is not valid).

The student must then verify or correct the SSN and resubmit the SAR. The student's application will then pass through the SSN match. The school may make an initial disbursement of aid before the new SAR is received if the student submits documentation to the financial aid administrator verifying the number.

Subsequent changes to SSN

Correction Applications have been virtually eliminated for 1995-96. There are only two rare cases when they may be necessary:

1. A student may attempt to change an SSN that was matched by the Social Security Administration. These cases usually arise when spouses or siblings with similar names use each other's SSNs by mistake. In such a case, both applicants would have

the same CPS identification number, which comprises the SSN and the first two letters of the applicant's last name. This will cause problems for both applicants in the CPS and in the Pell disbursement system. If this occurs, the student using the wrong SSN must complete and submit a Correction Application to change the SSN.

2. A student's application may manage to successfully pass the SSN match even though there is a problem with the applicant's SSN. In such a case, the student will not be able to correct the SSN on his or her SAR (and the aid administrator cannot correct it electronically) because the SSN has already been confirmed. The student must use a Correction Application to correct the SSN.

A financial aid administrator who needs a 1995-96 Correction Application should contact the Department's Application and Pell Processing Systems Division and ask for the Correction Application Coordinator. The telephone number is 1-202/260-9988. The Department will determine whether a Correction Application is necessary in each case. If a Correction Application is necessary, it can be mailed to the school or to the student, as requested.

Exception for students from certain Pacific Islands

Students from the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau who do not have SSNs should send their FAFSAs to the following address rather than to the address listed on the FAFSAs or on the envelopes provided with the FAFSAs:

Federal Student Aid Programs
P.O. Box 4057
Iowa City, IA 52243

It is preferable that the school "bundle" such applications and send them as a group. These applications will be assigned a special identifying number in lieu of an SSN and then sent to the CPS for regular processing. The application will initially fail the SSN match and be rejected, but it will be intercepted by the FAFSA processor and resubmitted. A letter will also accompany the student's SAR explaining the assigned number and the SSN verification process. Correction Applications have been virtually eliminated for 1995-96; therefore, if the student's application is rejected for other reasons, the student should make corrections on his or her SAR.

REGISTRATION WITH SELECTIVE SERVICE

If a person is required to be registered with the Selective Service System, he must have, in fact, registered before he can receive aid from the SFA programs. With the exceptions noted below, all males between the ages of

18 through 25 are required to register with the Selective Service System. This includes all students with permanent resident and other eligible noncitizenship statuses.

Exceptions to registration included on the Statement of Registration Status

The most common exceptions to the registration requirement are included on the Statement of Registration Status. These exceptions are—

1. a female person[5];
2. a male currently in the armed services on active duty (does not apply to members of the Reserve and National Guard who are not on active duty);
3. a male who is not yet 18 at the time he completes the application (an update is not required during the year, even if the student turns 18 after completing the application);
4. a male born before 1960; and
5. a citizen of the Federated States of Micronesia, the Marshall Islands or the Republic of Palau.

Exceptions not included on the Statement of Registration Status

There are certain less common situations where the requirement for registration is also waived. Please note that these constitute allowable exceptions only if the student was not required to have already registered prior to meeting one of these criteria and if the student qualifies for an exception for the entire time he is 18 through 25. The exceptions are—

1. students who are unable to register due to being hospitalized, incarcerated, or institutionalized;
2. students who are enrolled in an officer procurement program at The Citadel, North Georgia College, Norwich University, or Virginia Military Institute;
3. students who are commissioned officers of the Public Health Service on active duty or members of the Reserve of the Public Health Service; and
4. students who are commissioned officers of the National Oceanic and Atmospheric Administration.

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[5] Whether a person is a male or female is a matter for medical determination. If a school needs to determine whether a student is male or female for Selective Service purposes, the school should tell the student to write to Selective Service for a Status Information Letter.

Since schools will rarely have students in the above categories, in order to conserve space on the Statement of Registration Status, the Department has not included these exceptions on the form signed by students. Instead, students meeting one or more of these criteria are exempted through reference in the regulations. Whenever a student is not required to provide a Statement of Registration Status on this basis, the school must document the student's status in his or her folder. If the student is not clearly exempt from the requirement to register, the school should ask the student for a Status Information Letter from Selective Service documenting the exemption.

Registration for students not already registered

The Department takes several steps to ensure that students register with the Selective Service System when required. To make it easier to register, a student may check Item 103 on either the FAFSA or the SAR, giving permission to the Department of Education to register the student with Selective Service if the student is eligible.[6]

As required by the HEA, the Department matches student aid applications with registration records from Selective Service. If the student's SAR displays comment 29, "**Your registration or your exemption status has been confirmed by Selective Service**," the school may consider that the student's registration has been confirmed, and the student is not required to complete the Statement of Registration Status.

Records match

If, on the other hand, Selective Service was unable to confirm the applicant's registration or a match was not conducted for technical reasons, one of the following five comments will appear:

1. **Comment 14:** The student received aid in a previous year and may not have registered. (See Appendix C for the text of all five comments.)
2. **Comment 30:** The Selective Service reports that the student is not registered.
3. **Comment 32:** The Selective Service was unable to conduct a match.
4. **Comment 33:** The student did not provide enough information for registration or was over the age for registration.
5. **Comment 37:** The Selective Service was unable to complete the student's registration.

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[6] The student can be registered with Selective Service as early as 30 days before his 18th birthday; if the student is too young Selective Service will hold the registration until the student is within 30 days of his 18th birthday. Students 26 and older cannot be registered.

In all five cases, the school must withhold all SFA funds and may not certify the student's loan application until the problem is resolved. Note that whenever these comments appear, a "C" will appear next to the student's EFC to alert the aid administrator that there is an eligibility problem that needs to be resolved before disbursements may be made.

Documentation required for students identified during the records match

Unless the aid administrator has documentation that a student who receives one of these comments is exempt from registration, the student must present his Selective Service Registration Acknowledgement or Verification postcard or letter of registration confirmation to the financial aid administrator as documentation of being properly registered; otherwise the student is not eligible for SFA funds. If the student does not have any of these documents, he must reconcile the conflict with the Selective Service. If the conflict is resolved in the student's favor, the student will receive a letter from Selective Service documenting that the student is registered or is exempt from registration. Selective Service does not provide letters for females because they are not required to register.

Students who are beyond the permissible age to register

In recent years, a number of students have been denied aid because they failed to register with the Selective Service before their 26th birthday. (The Selective Service will register only males age 18 through 25, leaving older students with no way to remedy their earlier failure to register.) The Military Selective Service Act was amended to require a school to pay an otherwise eligible student who is 26 or older and did not register when required if the student demonstrates that he did not knowingly and willfully fail to register. The Department of Education's regulations also allow such students to receive aid if the student served on active duty with the Armed Forces. This is because it is presumed that a person who has actually served in the Armed Forces is not trying to avoid registering for duty. For these students, the financial aid administrator should obtain a copy of the student's DD Form 214, "Certificate of Release or Discharge from Active Duty," showing military service with other than the reserve forces, Delayed Entry pool, and the National Guard.

For those students who have not served on active duty, the financial aid administrator must determine whether the student knowingly and willfully failed to register. In other words, did the student know of the registration requirements and, nevertheless, choose not to register? The procedures that a financial aid administrator uses in making the determination follow. The aid administrator's decision is final and cannot be appealed to the U.S. Department of Education.

Unless the aid administrator can document that the student meets one of the allowable exemptions to registration or has served on active duty in the Armed Forces, the first step is for the student to write to the Selective Service System for a Status Information Letter concerning his failure to register. The student should provide as complete a description about his

situation as possible: where he was living during the period, whether he was incarcerated or institutionalized, his citizenship status during the period, if applicable, and so on.

In January 1995, the Selective Service began using revised versions of the Status Information Letters. Copies of the revised letters are included in Appendix B. Each of these letters has a code in the lower left-hand corner that indicates the type of letter. The revised letter types and codes are:

- **E1-E7**
  Letters with one of these codes indicate that the student was not required to register or was exempt for the entire time he could have registered (age 18 through 25).

  General exemption

- **NR**
  A student will receive this letter if he was born before 1960 and is therefore not required to register.

  DOB before 1960

- **RR**
  The student will receive this letter if he indicates that he attempted to register but Selective Service has no record that he did register.

  Required to register, no record of attempt

- **NM**
  The student will receive this letter if he was on active duty with the Armed Forces but only for a portion of the time when he could have registered (age 18 through 25) and was, therefore, required to register but did not.

  Military service: noncontinuous

- **RL**
  The student will receive this letter if he was required to register, the Selective Service has no record that he registered, and Selective Service records indicate he was sent one or more letters requesting his compliance with the registration requirement during the period he was required to be registered.

  Required, compliance letter sent

- **RD**
  A letter with this code indicates that the student provided a reason for not registering or documentation indicating that he was exempt and the Selective Service determined that the reason or documentation was not valid; therefore, this code indicates that the student was required to register but did not.

  Required, no valid exemption

If the student receives a "general exemption letter" (codes E1-E7) or "DOB before 1960" letter (code NR), the student is exempt from registration and may receive aid. If the student receives any of the other letters, the school

must determine, based on all relevant evidence, whether the student knowingly and willfully failed to register. The letter from Selective Service is part of the relevant evidence. For example, if the student received a letter indicating a compliance letter had been sent (code RL), this would be considered a negative factor in making the determination. On the other hand, if the student received a "Military Service: Noncontinuous" letter (code NM), the aid administrator could determine that the student had not knowingly and willfully avoided registration (see the discussion of military service on page 2-30).

Most of the letters state that the final decision about the student's eligibility rests with the agency awarding funds; for the purposes of the SFA programs, the decision is made by the financial aid administrator, who represents the Department. When making the decision as to whether the student had knowingly and willfully failed to register, the financial aid administrator should consider the following factors:

- where the student was living during the period when he was ages 18 to 26. For example, if a student was living abroad, it is more plausible that he would not come into contact with the requirement for registration.

- whether the student claims that he thought he was registered. Mistakes in recordkeeping can occur. Correspondence indicating an attempt to register could form a basis for determining that the student did not knowingly and willfully fail to register. On the other hand, a letter from Selective Service stating that it had received no response to correspondence sent to the student at a correct address would be considered a negative factor.

- why the student was not aware of the widely publicized requirement to register when he was ages 18 through 25.

If the school determines that the failure to register was knowing and willful, the student is ineligible for all SFA programs. The school's decision as to whether the student has willfully failed to register *cannot* be appealed to the Department of Education.[7]

BORROWING IN EXCESS OF LOAN LIMITS

A student who inadvertently borrows more than the annual loan limits under the SFA loan programs loses his or her eligibility for further SFA

[7] However, if the student is claiming that he is in compliance with the registration requirements (i.e., that he is registered or is exempt from registration), the denial of aid by the school can be appealed to the Department.

assistance until the excess funds have been repaid in full. Borrowing more than the cumulative loan limits results in ineligibility for further SFA funds until the student's relevant cumulative loan limit once again exceeds the amount he or she has borrowed.

Borrowing in excess of annual limits should be relatively rare because the school that certified the loan should have verified compliance before certifying. However, the student may have exceeded the allowable annual limit if he or she borrowed from multiple schools and the aid administrator did not receive the financial aid transcripts before certifying the new loan, if the student used different names when borrowing, or if the student failed to disclose the names of other schools he or she had attended.

Cumulative limits could be exceeded for the same reasons or because of confusion over amounts borrowed versus amounts outstanding. If a student inadvertently borrows in excess of the loan limits, he or she may regain eligibility for SFA funds by repaying the excess amount.

The charts on the next two pages show the maximum annual and cumulative loan and grant limits. Note that for PLUS loans and Direct PLUS loans, the annual loan limit for parents equals the student's cost of attendance minus any other financial aid the student receives. There is no other borrowing limit under this program.

Maximum Annual Loan Amounts Federal Stafford Loan Program and Federal Direct Stafford Loan Program

Borrower's academic level	Dependent student	Independent student	
	Total Subsidized & Unsubsidized	Subsidized Limit	Unsubsidized Limit** *Less Amount Borrowed Under Subsidized Loan Program*
First Year Undergraduate Student			
• full academic year	$ 2,625	$ 2,625	$ 6,625
• 2/3 to less than full academic year	$ 1,750	$ 1,750	$ 4,250
• 1/3 to less than 2/3 academic year	$ 875	$ 875	$ 2,375
Second Year Undergraduate Student			
• full academic year	$ 3,500	$ 3,500	$ 7,500
• 2/3 to less than full academic year	prorated*	prorated*	$ 2,500 + prorated limit
• 1/3 to less than 2/3 academic year	prorated*	prorated*	$ 1,500 + prorated limit
Third Year and Beyond Undergraduate Student			
• one academic year	$ 5,500	$ 5,000	$10,500
• less than a full year	prorated*	prorated*	prorated*
Graduate/ Professional Student	N/A	$ 8,500	$18,500

Note carefully that when determining the amount of unsubsidized loan a student may borrow, any subsidized loan amount the student is borrowing must be subtracted from the unsubsidized maximum. In other words, if a first-year independent student borrows a $2,000 subsidized loan, he or she is eligible to borrow an additional $4,625 unsubsidized loan. Subsidized and unsubsidized are available under both the Federal Stafford Loan and Federal Direct Loan programs.

*Whenever the chart indicates that the amount is prorated, the amount that a student can borrow is determined by the length of the student's program in proportion to the school's definition of an academic year. Thus, the amount that a student can borrow when he or she is enrolled for less than a full academic year is prorated according to the portion of an academic year for which the loan is sought as expressed in the number of semester, trimester, quarter, or clock hours. See Chapter Ten, Section Two.

**Dependent undergraduates can also receive these additional amounts if the financial aid administrator determines it is unlikely that the student's parents will be able to borrow a Federal PLUS loan or Federal Direct PLUS Loan on the student's behalf. The financial aid administrator makes this decision after reviewing the family's financial information. The aid administrator must document in the student's file the exceptional circumstances that would prevent the parents from borrowing a PLUS loan. For example, if the parents receive only public assistance, the administrator could assume that they will not be able to repay a PLUS loan. A parent's refusal to borrow a PLUS loan is not an exceptional circumstance.

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Maximum Loan and Grant Limits for Programs other than Direct Loans and FFEL

Program	Annual limit	Cumulative limit
Pell	**$2,300**	**None**
FSEOG	**$4,000***	**None**
Perkins loan	**$3,000**** (undergraduate)	**$15,000**** (undergraduate)
	$5,000** (graduate)	**$30,000**** (graduate, including undergraduate Perkins)

* If the student is participating in a study abroad program approved for credit by the home school, the student may receive up to an additional $400 if the study abroad costs exceed the cost of education at the home school.

** Schools participating in the Expanded Lending Option program are required to match the Federal Capital Contribution on a dollar-for-dollar basis and may make loans to students at higher award-year and cumulative loan limits than is the case with non-participating schools. See Chapter Six for more information. For a program of study abroad that has reasonable costs in excess of the school's costs, the annual and cumulative loan limits may be exceeded by 20 percent.

Also note that in the case of Perkins, the limits are on the amounts borrowed, not on the amounts outstanding, as is the case for FFEL loans.

Total Cumulative Loan Limits for FFEL and Direct Loans

Dependent undergraduate	Parent Loan	Independent undergraduate	Graduate
$23,000 (subsidized and unsubsidized)	No limit	$46,000 (subsidized and unsubsidized with subsidized limited to $23,000)	$138,500 ($65,500 subsidized; $73,000 unsubsidized; includes any loans outstanding from undergraduate study)

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MEMBERS OF A RELIGIOUS ORDER

Because members of a religious order are not considered to have financial need, such a student may not receive a subsidized FFELP loan, a Direct Subsidized Loan, a Federal Pell Grant, or campus-based aid if he or she is a member of a religious community, society, or order that directs the student's course of study or provides subsistence support to the student. Members of religious orders are eligible for unsubsidized FFELP loans and Direct Loans.

INCARCERATED STUDENTS

Incarcerated students ineligible for loans and Pell

If a student is incarcerated, he or she is ineligible for an SFA loan. Incarcerated students are eligible for FSEOG and FWS. The Violent Crime Control and Law Enforcement Act of 1994 recently amended the HEA to state that a Federal Pell Grant may not be awarded to any individual who is incarcerated in any federal or state penal institution. This amendment is effective for periods of enrollment beginning on or after September 13, 1994. For 1995-96, the student is eligible for a Pell Grant only if he or she is incarcerated in a local penal institution.[8]

CORRESPONDENCE AND TELECOMMUNICATION COURSES

Students enrolled in correspondence courses are ineligible for aid from the SFA programs unless the courses are part of a program leading to an associate, bachelor, or graduate degree. Students in courses of instruction offered in whole or in part through telecommunications are not considered to be enrolled in correspondence courses if the telecommunications program leads to an associate, bachelor, or graduate degree from that school and telecommunications and correspondence courses at the school total less than 50 percent of the courses offered. See Chapter Three, Section One for more information on telecommunications courses.

STUDENT CERTIFICATIONS AND STATEMENTS

In order to receive aid from the SFA programs, a student must sign certain statements, most of which relate to the various eligibility requirements that have been discussed elsewhere in this chapter. These statements are combined into a single block and printed for the school's convenience on the back of Part 1 of the SAR. However, the school may instead decide to collect the statements elsewhere. If the school collects them on a form of its own design, the form must include the student's Social Security Number. (The SSN is not needed on the statement as it appears on the SAR because the

[8] Students incarcerated by jurisdictions that are defined as a state in the HEA and that have no state government, such as the District of Columbia, are considered incarcerated in a state penal institution and are thus not eligible to receive Federal Pell Grants.

student's SSN appears elsewhere on the form.) An institution may not require a student to submit a SAR only for the purpose of collecting these statements; that is, if a school has a valid federal output document for which it must make payment, it cannot require the student to submit a SAR.

The following are the required statements:

1. Statement of Registration Status,
2. Statement of Educational Purpose, and
3. Certification on Refunds and Default.

Although the Statement of Updated Information has been removed from the SAR, three items still may need to be updated if they change, unless those changes were the result of a change in the marital status of the student. A student's dependency status must be updated if it changes any time during the award year. If a student is selected for verification, he or she must also update household size (items 46 or 51) and number in postsecondary education (items 47 or 52) if they change after the SAR has been submitted.

Changes in household size and number in postsecondary education that are the result of a change in the dependent applicant's parents' marital status should be reported. Remember also that because Correction Applications are not being used, corrections or updates that change the applicant's dependency status are now made on the SAR.

Statement of Registration Status

If a student's registration status is confirmed through the match with the Selective Service, he is not required to sign a Statement of Registration Status. Completion of the Statement of Registration Status is also not required if the school knows that the student meets one of the exceptions to required registration, such as being born before 1960 or being female. However, since some schools wish to certify loan applications before the matches are completed, they routinely have all students complete the statement. The school may also use the statement as documentation in a case in which the student qualified for an exception to the registration requirement. The student must check off the criterion that applies to his or her circumstances and sign in the place below.

Statement of Educational Purpose

In the Statement of Educational Purpose, the student certifies that he or she will use any SFA funds received only for educational expenses. In the case of the FFEL Program, the statement must be filed with the lender. For this reason, the Statement of Educational Purpose is included on the loan application. For the Federal Pell Grant, campus-based, and Direct Loan programs, the statement must be filed with the school the student is attending. Completion is required once every award year.

Certification on Refunds and Default

The Certification on Refunds and Default is no longer combined with the Statement of Educational Purpose. It now appears above the Statement of Educational Purpose on Part 1 of the SAR. This certification states that the student does not owe a repayment on any SFA grant and either is not in default on any SFA loan or has made satisfactory repayment arrangements on any defaulted SFA loan in his or her name. This certification also states that the student has not borrowed in excess of the loan limits under the SFA programs at any school. The school may rely on this statement only until confirmation is received from the financial aid transcripts. Remember that a student who is in default or owes a repayment is generally not eligible for SFA funds (the exceptions were discussed earlier in this chapter under *Loan Defaults and Grant Overpayments*).

The school must keep the signed statement(s) on file for the duration of the record retention period. (See Chapter Three, Section Eight.)

SPECIFIC PROGRAM REQUIREMENTS

In addition to these general requirements, some programs have additional eligibility rules. For instance, the Pell Grant Program requires that the school receive a valid federal output document or valid electronic record while the student is still enrolled and eligible for payment. The specific program requirements for each program are discussed in Chapters Four through Ten.

SECTION TWO: OVERVIEW OF FINANCIAL NEED

With the exception of the unsubsidized loan programs (unsubsidized Federal Stafford, Direct Unsubsidized, Federal PLUS, Direct PLUS), a student must demonstrate financial need to receive aid from the SFA programs. Unlike scholarship programs that may award funds based on academic merit or on the student's area of study, need-based aid is awarded to students based on the family's need for assistance. The concept of need is not a requirement solely for federal aid; it has also been used for many years by schools and some states to award their own aid.

Financial need is simply defined as the difference between the student's cost of education and the family's ability to pay those costs. Note that the student's financial need will be reduced by aid that is awarded to the student.

Financial Need: the difference between the cost of education and the amount the family can contribute (EFC).

The educational costs for the SFA programs are defined by statute and are fairly easy to calculate based on the student's tuition and fee charges, living situation (e.g., on-campus, off-campus with parents, off-campus not with parents), as well as other factors that affect the student. However, the student's ability to contribute toward these costs, as measured by the "Expected Family Contribution," is a much more complicated assessment.

The purpose of this section is to review the concept of financial need. We will discuss family contribution analysis and the independent student definition first and then proceed to calculating the cost of attendance and a discussion of overawards and packaging.

EXPECTED FAMILY CONTRIBUTION

The Expected Family Contribution (EFC) is the amount that a family can reasonably be expected to contribute toward college costs. It is based on an analysis of the family's financial strength, including the income and assets of the student and the student's spouse or, if the student is dependent, the student and his or her parents. The EFC formula also takes into account the family's expenses, looking at such factors as the number of persons in the household, the number of those persons attending college, and the special costs of two-worker families.

As mandated by the Higher Education Amendments of 1992, the EFC is produced by a need-analysis formula known as the Federal Needs Analysis Methodology. For more information on how the EFC is calculated, see *The Expected Family Contribution (EFC) Formulas, 1995-96*. You can order a copy by calling the Federal Student Aid Information Center at 1-800-4-FED-AID.

If the EFC is less than the cost of attendance (in other words, the student's family cannot be expected to contribute the full costs faced), the student is considered to have financial need. In the case of the Federal Pell Grant Program, however, a maximum eligible EFC is determined each year. Although a student whose EFC exceeds the maximum may have financial need, he or she is not eligible for a Federal Pell Grant. For 1995-96, the maximum EFC to qualify a student for Pell eligibility is 2140. As long as the EFC is less than the cost of attendance, the student will still be eligible for aid from other SFA programs, provided that he or she meets the other eligibility requirements of those programs.

Simplified needs test

Some students receive more than one EFC calculation. The Central Processing System (CPS) will calculate a simplified EFC for students who meet certain income and tax-filing requirements. For an applicant who meets the requirements to have a simplified needs test, the family's assets are not considered in the calculation; therefore, the student does not need to provide this information on the application. However, if the student does provide this information anyway, the CPS will calculate two EFCs, one using the simplified formula and resulting in a Primary EFC, and one using the full formula and resulting in a Secondary EFC. In all cases, the formula produces an equivalent or higher figure for the Secondary EFC. The financial aid administrator may use either figure in determining eligibility for aid from any of the SFA programs.

A student must meet both of the following qualifications to be eligible for the simplified formula:

1. Of those family members whose financial information is necessary on the application, none is required by IRS rules to

file an IRS Form 1040 for 1994. For an independent student, if either the student or the student's spouse is required to file a Form 1040, the student does not qualify for the simplified formula. For a dependent student, if either the student or the student's parents is required to file a Form 1040, the student does not qualify for the simplified formula.

If the student (and spouse, if applicable) filed a 1040 but was eligible to file a 1040A or 1040EZ, the student should indicate 1040A or 1040EZ for Question 53 of the financial aid application. Likewise, if the parents of a dependent student filed a 1040 but were eligible to file a 1040A or 1040EZ, they should indicate 1040A or 1040EZ for Question 64 of the financial aid application.

2. The family's 1994 Adjusted Gross Income (earned income in the case of non-filers) did not exceed $49,999. This income limit to qualify for the simplified formula applies to the income of an independent student and spouse or to the income of a dependent student's parents. The income of a dependent student is not counted toward this limit.

EFC for 9-month enrollment

The EFC found in the upper right hand corner of the Student Aid Report (SAR) is based on a 9-month enrollment period and should always be used when awarding a Federal Pell Grant, even if the student is attending for a longer or shorter period. At the end of the last page of comments on Part 1 of the SAR is the FAA Information area. The second section of the FAA Information area contains the headings "Months," "Primary EFC," and "Secondary EFC."

If only a Primary EFC appears, either the student has not met the simplified-formula criteria (based on income or tax-filing status) or the student has met this criteria and did not supply sufficient asset information to permit a Secondary EFC calculation.

EFC for other than 9-month enrollment

In the second section of the FAA Information area, there is also a grid of 1- to 12-month alternate EFCs. These figures represent alternate EFCs that the financial aid administrator may use to award aid—other than Federal Pell Grants for which the 9-month figure is always used—if the student is attending for less than or greater than the standard 9-month period. For dependent students, the alternate EFCs for periods of attendance of other than 9 months are calculated by the CPS according to a formula prescribed in the HEA. For independent students, the law does not specify the adjustments, so the CPS performs a simple proration of the EFC by month for the convenience of the financial aid administrator.

Special circumstances

If the student has special circumstances not taken into account by the EFC formula, the financial aid administrator may use professional judgment, on a case-by-case basis, to adjust the value of specific data

items reported on the student's SAR. Special circumstances are conditions that differentiate an individual student, not conditions that exist for a whole class of students. Adjustments can either increase or decrease a student's EFC or cost of attendance. For example, if a dependent student's parent had retired since 1994 and, thus, the family expected to have a lower income for 1995, the financial aid administrator might use professional judgment to adjust the parents' income. The reason for an adjustment must relate to that student's special circumstance and must be documented in the student's file. For more information on the use of professional judgment, see *The Counselor's Handbook for Postsecondary Schools, 1994-95*.

One of the most significant decisions in need analysis is whether the student should be treated as a dependent or an independent student (in other words, whose ability to contribute should be analyzed). If the student is considered to be dependent on his or her parents, information on the income (and assets, if applicable) of the parents must be collected on the financial aid application, and a parental contribution will be added to the student's contribution.

Independent student definition

Traditionally, need-analysis methodologies have assumed that parents have the primary responsibility to pay for their children's education. However, there have always been exceptions to this rule for students who no longer have contact with their parents, for nontraditional students who are too old to be considered their parents' responsibilities, and for students whose parents are deceased, as well as for other cases. These exceptions have been subject to congressional modifications over the years, and a significant change occurred as a result of the Higher Education Amendments of 1992. These amendments eliminated the provision that allowed students who were not claimed as income-tax exemptions for the two years prior to their first receiving SFA funds to file as independent if they could document resources of more than $4,000 per year for the same two years.

For the 1995-96 award year, a student is automatically independent if he or she meets at least one of the following criteria:

1. The student is at least 24 years of age by December 31, 1995. For the 1995-96 year this means that the applicant must have been born before January 1, 1972.

2. The student is a veteran of the U.S. Armed Forces.

3. The student is a graduate or professional student.

4. The student is married (which may depend upon the common law rules in the student's state of legal residence).

5. Either the student is a ward of the court (or was a ward of the court until age 18), or both parents are deceased and the student has no adoptive or legal guardian. Note that a student is not considered a ward of the court based solely on being incarcerated.[9]

6. The student has legal dependents other than a spouse.

As you will note from a review of the preceding criteria, a student's living situation (i.e., whether the student lives with his or her parents) does not affect the student's dependency status. Complete definitions of these criteria can be found in the Free Application for Federal Student Aid.

Professional judgment

In unusual circumstances, a student who does not meet any of these criteria may still be considered to be independent on the basis of the financial aid administrator's professional judgment. The aid administrator must make this decision on an individual (case-by-case) basis and must document the reason(s) for that decision in the student's file. Because there is no Correction Application for 1995-96, it is now possible to use the SAR to change the student's dependency status. A dependency override can be performed by using the SCHOOL USE ONLY box of Part 2 on the SAR. *The Counselor's Handbook* and *A Guide to 1995-96 SARs and ISIRs* (GEN-95-10) provide information on the proper procedures.

Please bear in mind that the aid administrator may use professional judgment only to classify as independent a student who would otherwise be considered dependent. An aid administrator cannot require a student who meets one of the criteria for independence to file as a dependent. However, the financial aid administrator may adjust an independent student's assets or income to include a parental contribution if the aid administrator decides that such a contribution is warranted. Again, any such individual determination must be documented in the student's files.

COST OF ATTENDANCE

The cost of attendance is an estimate of a student's educational expenses for the period of enrollment. A student's financial need for assistance from the SFA programs is equal to his or her cost of attendance, minus the student's EFC, minus financial aid from other sources. Another way to express this formula is to say that the total aid the student may receive from the SFA programs and other sources when added to the student's EFC may not exceed the student's cost of attendance. (However, note that the Federal PLUS loan, the Direct PLUS loan, the unsubsidized

[9] The Technical Amendments added the provision that a student qualified under this category even though he or she lost the Ward of the Court status at age 18. For 1995-96, application forms have been changed to reflect the broadening of this category.

Federal Stafford Loan, and the Direct Unsubsidized Stafford Loan can be substituted for the EFC, as described later.)

The components of the cost of attendance are the same for all SFA programs. However, in the case of programs of study or enrollment periods that are less than or greater than the school's academic year, the cost of attendance for purposes of loans and campus-based aid will be different from the cost of attendance for the Federal Pell Grant Program. The Pell costs are always prorated to the costs for a full-time student for a full academic year, but the cost of attendance for the other programs is based on the student's actual costs for the period for which need is being analyzed. See Chapter Four for further information.

Tuition and fees

Books, supplies, etc.

Room and board

Child and dependent care

Except as provided below, a student's cost of attendance is the sum of the following:

1. the tuition and fees normally assessed a student carrying the same academic workload, including costs of rental or purchase of equipment, materials, or supplies required of all students in the same course of study;

2. an allowance for books, supplies, transportation, and miscellaneous personal expenses;

3. an allowance for room and board;

Student category	An allowance of not less than*
Dependent student without dependents living with parents	$1,500
Students without dependents living in institutionally owned or operated housing	The standard allowance normally assessed most residents
For all other students	$2,500

* Note that these minimums are for a standard 30-week period. If the loan period or the campus-based award is for a shorter period, the applicable minimum is prorated down based on the number of weeks.

4. for a student with dependents, an allowance for costs expected to be incurred for dependent care (during periods that include, but are not limited to, class time, study time, field work,

internships, and commuting time for the student), the amount of which should be based on the number and age of such dependents and should not exceed reasonable cost in the community for the kind of care provided;

5. for study abroad programs approved for credit by the student's home institution, reasonable costs associated with such study; **Study abroad**

6. for a disabled student, an allowance for expenses related to the student's disability including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other agencies;[10] **Costs related to disabilities**

7. for students placed in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment; and, **Cooperative education**

8. for students receiving SFA loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for a FFEL loan). Schools may also include the fees required for nonfederal *student* loans (that is, nonfederal loans that must be considered resources for the student when packaging). In all cases, the school can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at that school. **Origination fees and insurance premiums**

Exceptions to the normal cost of attendance allowances

The exceptions to the normal cost of attendance allowances discussed above are:

1. For students who are enrolled less than half time, only the costs for tuition and fees and allowances for books and supplies, transportation (but not miscellaneous expenses), and dependent care expenses may be included. **Less-than-half-time students**

2. Generally, the cost of attendance for a correspondence study student is restricted to the costs for tuition and fees. However, if the student is fulfilling a required period of residential training, the cost of attendance can also include required books and **Correspondence study students**

[10] A student is disabled if he or she is deaf, mentally retarded, hard of hearing, speech or language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, or autistic, or has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services. There is no maximum to the allowance for expenses related to a disability. However, the school should be careful not to include costs for services or equipment provided free of charge by other assisting agencies.

supplies, an allowance for travel, and room-and-board costs specifically incurred. (Note: a student is not eligible to receive aid from the SFA programs for correspondence courses unless they are a part of an associate-, bachelor-, or graduate-degree program and the school meets the criteria for the percentage of courses taught using this medium. See Chapter Three for further details.)

Incarcerated students

3. The cost of attendance for incarcerated students is limited to cost of the tuition and fees and required books and supplies. Bear in mind that an incarcerated student is ineligible to receive an SFA loan and that if the student is incarcerated in a federal or state penal institution, he or she may not receive a Pell Grant. See Incarcerated Students in Section One of this Chapter.

Students receiving instruction by telecommunications

4. In determining a student's cost of attendance, no distinction is made regarding the mode of instruction, except that the cost to rent or purchase equipment is excluded for students receiving instruction by telecommunications. However, if the aid administrator, using professional judgment, determines that instruction by telecommunication substantially reduces elements of a student's cost of attendance, the aid administrator must reduce the student's eligibility for grants, loans, or work-study assistance by adjusting the cost of attendance accordingly.

Special circumstances

5. The financial aid administrator has the authority to use professional judgment to adjust the cost of attendance for the SFA programs on a case-by-case basis to allow for special circumstances. Such adjustments must be documented in the student's file.

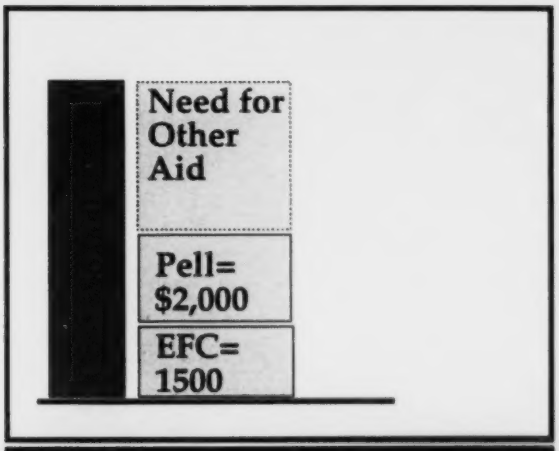
AWARD CALCULATIONS, RESOURCES, AND ESTIMATED FINANCIAL ASSISTANCE

We have seen how to find a student's financial need by subtracting the EFC from the cost of attendance, but the student may be receiving aid from other sources to help meet that financial need. A basic premise of need-based aid is that the total package of aid must not exceed the student's financial need. Aid in excess of need is referred to as an overaward. Because of differences in the way aid is handled in each of the SFA programs, there are differences in the way that each program takes into account other sources of aid.

Determining Remaining Need

Pell Grants

Federal Pell Grants are considered to be one of the first sources of aid to the student. The Department issues Pell Grant payment and disbursement



Pell Example

schedules that base the award solely on the student's cost of attendance, EFC, and enrollment status. When awarding other sources of need-based aid, the financial aid administrator must take eligibility for the Pell Grant into account. However, it is always possible that the student will receive a scholarship or other aid that, in combination with the Pell Grant, causes the student's financial aid package to exceed his or her need. The school may not award other need-based **federal** aid that would cause the package to exceed the need; however, if the student's need is exceeded due to the combination of the Pell Grant and other sources of aid, the student is still eligible for the Pell Grant as determined by the payment or disbursement schedule.[11]

Campus-based resources

Any available campus-based aid is usually packaged before FFEL and Direct Loans because aid from these programs is more attractive to the student. In contrast to the Pell Grant Program, the regulations for the campus-based programs specifically require the school to take into account all resources available to the student when awarding funds from these programs. Such resources include the student's Pell Grant eligibility (regardless of whether the student applies for a Pell Grant), subsidized Stafford Loans, Direct Subsidized Loans, veterans benefits, outside scholarships, and net earnings from **need-based** employment that will be received during the award year. If the total of the student's EFC, resources, and campus-based aid exceeds the student's cost of attendance, the campus-based aid must be reduced to prevent an overaward. Note that there are overaward "thresholds" for the campus-based programs, as we will discuss later in this section. (See also Chapter Five, Section Two.)

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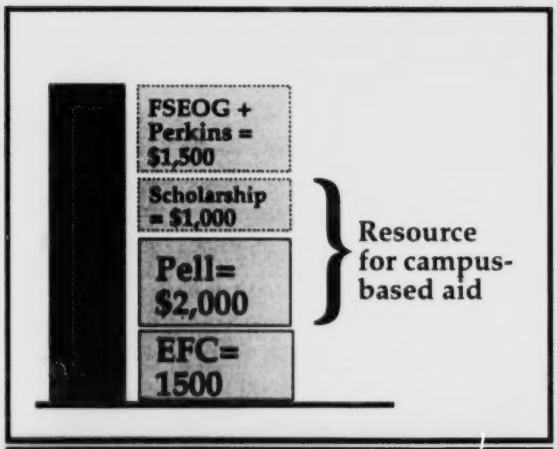
[11] The exception to this is that an adjustment may be needed for recipients of Paul Douglas Teacher Scholarship Program and the National Science Scholars Program. See Chapter Nine for further information.



Campus-Based Example

A student has a cost of attendance of $6,000, and an EFC of 1,500. The student's resources are a $2,000 Pell Grant, and a $1,000 outside scholarship. The school may award the student a $500 Federal SEOG and a $1,000 Federal Perkins Loan to fully meet the student's financial need.

FFEL and Direct Loans: estimated financial assistance

The statute governing the Federal Family Education Loans (subsidized and unsubsidized Stafford, and PLUS) and Direct Loans (Direct Subsidized, Direct Unsubsidized and Direct PLUS) does not use exactly the same definition of "resources" as do the campus-based programs. Instead a similar measure, called "estimated financial assistance," is used for determining FFEL and Direct Loan eligibility. Prior to 1995-96, estimated financial assistance included the estimated amount that a student could receive from the Pell Grant, campus-based, and other federal and nonfederal scholarship, grant, loan, and need-based work programs, regardless of whether the student actually applied for aid from those programs.. For 1995-96, estimated financial assistance, like resources for the other SFA programs, includes the student's Pell Grant eligibility and other aid the student will receive. The school may certify a subsidized Stafford Loan and Direct Subsidized application only for the amount of need that remains after subtracting both the student's EFC and estimated financial assistance from his or her cost of attendance. However, the unsubsidized Stafford, PLUS, Direct Unsubsidized, Direct PLUS, state and private education loans are not considered to be a resource because they can be used to finance (or replace) the EFC. Thus, students may borrow under these programs up to the amount of the EFC without affecting eligibility for campus-based aid or a subsidized Stafford Loan or Direct Subsidized Loan. For instance, in the campus-based example just shown, the student could receive a $1,500 private education loan, unsubsidized Stafford Loan, or Direct Unsubsidized Loan without being overawarded. None of these loans would be considered a resource as long as it did not exceed the EFC.

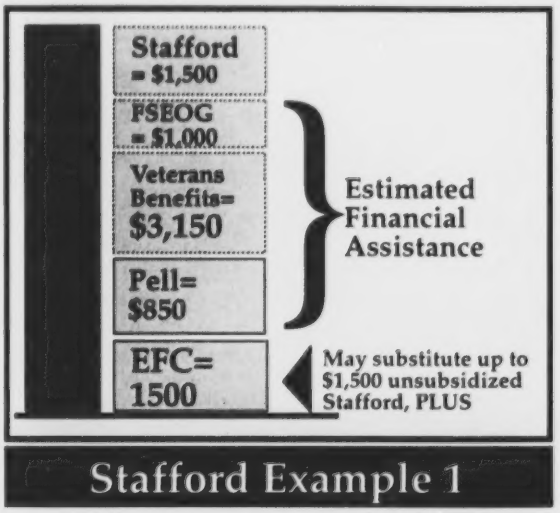
Note that a student may qualify for a combination of a subsidized and an unsubsidized loan. A student loan is "unsubsidized" when the student is responsible for the interest that accumulates while the student is enrolled in school and during the grace period. These interest payments may be deferred until the student enters repayment.

For a dependent student whose parents are able to borrow a PLUS or Direct PLUS, the maximum amount the student may borrow under the unsubsidized Stafford Loan or Direct Unsubsidized Loan programs is the amount that can be borrowed under the Stafford Loan or Direct Loan Program for that grade level and program length, less the amount that has been borrowed under the subsidized program (if any). For example, if a dependent student whose loan limit is $2,625 qualifies for a $1,600 subsidized Stafford Loan or Direct Subsidized Loan, he or she may borrow an additional $1,025 ($2,625-$1,600) unsubsidized Stafford Loan or Direct Unsubsidized Loan, as long as the total of all aid received does not exceed the student's cost of attendance.

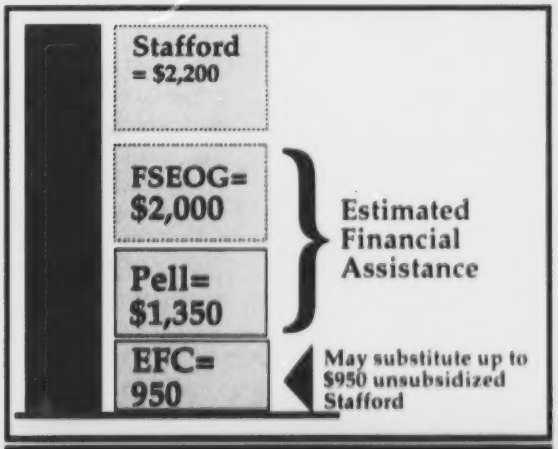
The independent student (or the dependent student whose parents are unable to obtain a PLUS or Direct PLUS loan) is permitted the same amount as the dependent student based on grade level and length of program, under a combination of the subsidized and unsubsidized program (the mix of which depends upon the student's need). However, this student can borrow an additional **unsubsidized** loan amount. The maximum additional amount is limited to either the total of the student's EFC and remaining need or the applicable unsubsidized loan limit found in the chart on page 2-34 minus the subsidized amount already borrowed, whichever is less. When packaging aid, it may help to think of this additional unsubsidized loan as functioning similarly to loans that were borrowed under the Supplemental Loans for Students Program, which has been discontinued.

Remember that before the school may certify a Stafford Loan or Direct Loan, it must have determined the student's eligibility for a Federal Pell Grant. The results from the federal processor do not have to be on file at the time the loan is certified. Instead, a determination of the student's Pell eligibility could be made through software available at the school. On the other hand, the school **must** have evidence that the student's data went through the CPS before the loan is disbursed.

An independent student has a cost of attendance of $8,000, an EFC of 1,500, a Pell Grant of $850, veteran's benefits of $3,150, and FSEOG of $1,000. Therefore, the student would be eligible for a maximum subsidized Stafford Loan of $1,500. This is calculated by subtracting the EFC and the other aid received from the COA ($8,000 -$1,500 - $5,000). However, because unsubsidized Stafford and PLUS loans are not considered a resource as long as they do not exceed the EFC, the student would also be eligible for an additional $1,500, the amount of the EFC, from one of those programs. In the case of a first-year dependent student, the maximum total Stafford Loan that can be borrowed is $2,625. Therefore, a first-year dependent student with otherwise the same circumstances as our independent student could borrow an unsubsidized Stafford Loan of $1,125, and the parents could borrow the remaining $375 as a PLUS loan. Or, the parent could borrow the full $1,500 as a PLUS Loan with the student borrowing only a $1,500 subsidized Stafford Loan.

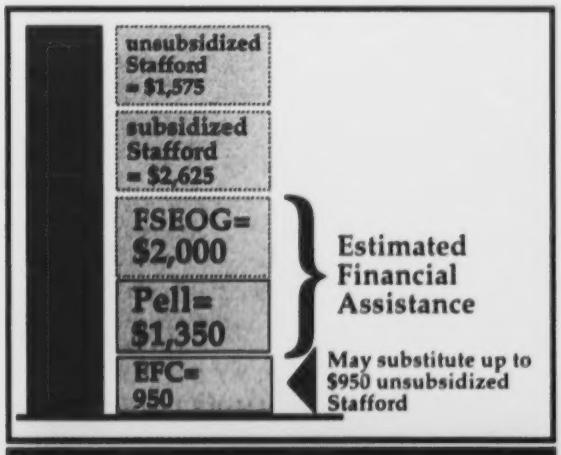


Stafford Example 1



Stafford Example 2

An independent first-year undergraduate student has a cost of attendance of $6,500, an EFC of 950, a Federal Pell Grant of $1,350, and an FSEOG of $2,000. This student has remaining need for subsidized Stafford of $2,200 ($6,500 - $4,300). Because the amount of the unsubsidized loan, up to the amount of the EFC, is not considered a resource, the student may also borrow a $950 unsubsidized Stafford Loan. This would mean that the student's



Stafford Example 3

Let us now say that this student's cost of attendance was $8,500. In this case, the student has remaining need for a subsidized loan of $4,200. However, because the maximum subsidized Stafford Loan for first-year undergraduate students is $2,625, the student would be limited to borrowing that amount under the subsidized program. After borrowing the $2,625, the student still has remaining need for $1,575, **as well as the ability to borrow $950,** the amount of the EFC. Therefore, he or she may borrow a $2,525 unsubsidized Stafford Loan, increasing the total borrowed to $5,150, of which $2,625 would be a subsidized loan and $2,525 would be an unsubsidized loan.

"RESOURCES" (for campus-based aid) ***and "ESTIMATED FINANCIAL ASSISTANCE"*** (for FFEL and Direct Loans) includes (but is not limited to):

FEDERAL AID

Pell Grant eligibility,*
Gross Stafford Loan or Direct Loan funds received**
Campus-based aid (FSEOG, Perkins, FWS [less the direct costs of employment])**

Veterans educational benefits

Insurance programs for the student's education, which includes Social Security educational benefits

* Estimated amount the student would receive, whether or not the student actually receives it

** These are not regarded as a resource in the need equation for the program for which the need is being determined. In other words, if the aid administrator is determining the need for a Stafford loan, the amount of Stafford loan to be awarded is not a resource.

SCHOOL & PRIVATE AID

School and other scholarship and grant aid, including:
- athletic and ROTC scholarships
- ROTC subsistence allowance
- fellowships and assistantships
- waiver of tuition and fees

Net earnings from need-based employment

School loans (long-term)***

Loans from state and other loan programs***

*** Unless these amounts were used to finance the family contribution. See text for an explanation.

PACKAGING AID

Packaging is the process of finding the best combination of aid to meet the student's financial need, given the constraints of available funds. If your school does not participate in the campus-based programs and does not have its own sources of aid, the student is eligible for a specified Federal Pell Grant amount, and any subsidized loan under the Federal Family Education Loan Program or the Direct Loan Program is limited to either the amount of the student's remaining financial need after his or her estimated financial assistance is taken into account or the loan limit for the student's level and enrollment status, whichever is less. (Of course, as explained earlier, the student may also borrow an unsubsidized Stafford, Direct Unsubsidized Loan, PLUS, Direct PLUS, state-sponsored or private education loan equal to the amount of the EFC.)

Packaging philosophies

On the other hand, if your school does have other sources of aid, you must decide how to allocate scarce funds from different sources to meet students' needs. Should you give priority to students who apply for aid first (on a "first-come-first-served" basis)? Should grant assistance be awarded to beginning students and loans and work-study to students who have had a chance to adapt to the academic program? If you do not have enough funds to meet every student's need, should your policy be to give more assistance to the neediest students or to meet an equal proportion of each student's need across the board?

Vocational Rehabilitation

Special considerations in packaging also arise when students qualify for both SFA funds and vocational rehabilitation assistance funds. In that case, the school should determine the student's package exclusive of both the costs related to the student's disability and the anticipated vocational rehabilitation assistance. This approach will result in the student's being offered the same aid package as a student who is in the same financial situation but does not have disabilities, and it will result in the student's receiving the maximum amount of vocational rehabilitation aid to which the student is entitled. Otherwise, if the school's packaging procedures consider both the disability-related costs and an anticipated vocational rehabilitation aid amount that happens to be less than those costs, the amount of SFA funds in the student's package may increase to cover the remaining costs; however, when the vocational rehabilitation agency actually disburses funds, rather than disbursing enough to cover all of the disability-related costs, the agency will take that SFA increase into consideration and disburse only the anticipated amount. Although the school has covered all of the student's need in both cases, if the increase in SFA funds in the second case is the result of an increased loan amount, the school has unnecessarily added to the student's debt burden. Although the vocational rehabilitation funds should not be considered a resource when the school packages, the school must coordinate funds available from the vocational rehabilitation agency and from institutional,

state, and federal student financial assistance programs to prevent an overaward. The amount of assistance from the vocational rehabilitation agency must be documented in the student's file.

Each state association of student financial aid administrators has a voluntary agreement with its state vocational rehabilitation agency specifying the procedures for coordinating vocational rehabilitation assistance with other forms of financial aid. For information about your state association's agreement, contact that association or a regional office of the U.S. Department of Education.

Each school may have a different philosophy of packaging, depending upon the characteristics of its academic programs and the makeup of its student body. Section Nine of the Self-Instructional Modules (formerly produced through contract by the Student Financial Assistance Programs) discusses some of the basic types and philosophies of packaging. Although the modules have not been updated, you may still find the general discussion of packaging useful. To get ideas about different approaches to packaging, you may also want to refer to materials prepared by the professional associations representing schools and financial aid administrators or to consult with other aid administrators at schools that have similar characteristics.

OVERAWARDS

While the school must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded. For instance, the student may receive an academic scholarship, or the student may want to extend his or her work-study employment. When these circumstances would lead to an overaward, the school may be required to adjust the federal student aid in the package. When doing so, the following principles should be kept in mind:

Pell Grants

- Pell Grants are never adjusted to take into account other forms of aid, except possibly in the case of recipients of Paul Douglas Scholarship Program and the National Science Scholars Program as noted earlier in this chapter and as discussed at length in Chapter Nine.

Adjusting Stafford and Direct Loans

- If all or a portion of a student's unsubsidized Stafford Loan, Direct Unsubsidized Loan, or nonfederal loan or the parents' Direct PLUS or PLUS loan is being used to cover need that was previously unmet, the loan can be adjusted to replace the EFC and, thus, reduce or eliminate the overaward.

- The second or subsequent disbursement of a subsidized or unsubsidized loan can be canceled or reduced to reduce or eliminate the overaward.

- If these adjustments have been made and an overaward still exists for a Stafford Loan borrower or Direct Loan borrower, the law requires the financial aid administrator to withhold and promptly return to the lender or the federal government any subsidized or unsubsidized funds that have not yet been delivered to the borrower. Note that Stafford and Direct Loan overawards must be repaid before adjusting or canceling campus-based funds. Instead of returning the entire undelivered aid, a financial aid administrator may choose to return only the amount of aid for which the student becomes ineligible. For example, if the loan disbursement were for $1,000 and the amount of the overaward were $800, the aid administrator could return just the $800 or could instead return the entire check and have the lender issue a new check for $200. In either case, the financial aid administrator must provide the lender with a written statement describing why the funds were returned.

- For a Direct Loan borrower, the financial aid administrator may choose either to return the amount of loan for which the student becomes ineligible or to cancel the loan, return the full disbursement, and originate a new loan for the lower amount. If we take our Stafford example with a $1,000 disbursement and an overaward of $800 and apply it to a Direct Loan school, we see that the aid administrator could either return just the $800 or return the full disbursement, canceling the loan, and originate a new loan for $200. If the aid administrator chooses the latter, a new origination record must be created, and a new promissory note must be generated for the student to sign.

- Funds returned to the lender or the government must be applied to reduce the student's loan balance. Because a Stafford Loan lender deducts the origination fee and insurance premium before disbursing a loan check to a school, the lender must reduce or cancel these fees accordingly when the school returns funds. If only the amount of the overaward is returned, the lender must reduce the insurance premium and origination fee to reflect the lower loan amount. If the full disbursement is returned, the lender must cancel the insurance premium and origination fee. For a Direct Loan, the federal government will adjust the loan fee accordingly. See Chapter Ten, Section Six for more information on returning overawards.

- The requirement to refund overawards to the lender or the government does not apply to Stafford Loans made to cover the cost of attendance at foreign schools or to PLUS or Direct PLUS loans.

- Although a school is not required to return Stafford Loan or Direct Loan funds that were delivered to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law does not prevent the school from returning funds that were applied to the student account if the school chooses to do so.

Campus-based awards

- A Stafford Loan or Direct Loan borrower who is overawarded and receives funds disbursed directly to him or her is not required to repay funds that were delivered in excess of need unless the overaward was caused by his or her misreporting or withholding of information.

- If reducing undisbursed Stafford Loans or Direct Loans is not sufficient to eliminate the overaward, the school may be required to reduce the amount of campus-based aid that has been awarded the student. Campus-based aid need not be reduced if the overaward does not exceed $300, which is now the overaward threshold for all campus-based programs. Prior to the 1995-96 award year, the threshold was $200 for Perkins Loans and FSEOG and for FWS unless FWS was the only campus-based aid in the student's package. If this were the case, the FWS overaward threshold was $300.

  NOTE: The $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need. See Chapter Seven, Section Two, for a more detailed discussion of these overaward provisions.

  If the overaward cannot be eliminated by reducing future payments of campus-based aid, the student must repay the full amount of the campus-based funds that he or she received in excess of need. Note, however, that the student cannot be required to repay FWS wages he or she has earned.

Appendix A:

Documenting Citizenship Status

DOCUMENTING CITIZENSHIP STATUS

As authorized by Congress, the SFA programs are intended to provide student financial aid to needy students who are U.S. citizens, U.S. nationals, permanent residents, certain Pacific Islanders, or persons who intend to become citizens or permanent residents of the United States.

This appendix will discuss a) when a school is required to document a student's citizenship status and b) what documents are acceptable as proof of the student's status.[12] Required documentation of a student's citizenship status must be kept in the school's files until the record retention period expires.

Section One of this chapter tells which citizenship statuses allow students to be eligible for SFA funds. Details on each category are provided here.

A. U.S. Citizen or National

The term "U.S. citizen" includes citizens of the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands. All U.S. citizens are considered to be U.S. nationals. However, nationals include an additional group of people: natives of American Samoa and Swain's Island are nationals, but not U.S. citizens.

Documentation

Generally, students in the U.S. citizen or national category are not required to provide documentation of that status to receive SFA funds. However, a student who fails to check any box under citizenship status when first applying for aid will have his or her application rejected and will be required to provide documentation of citizenship. Students who initially check the box for "ineligible" or "eligible noncitizen" but later change the item to "citizen" must also provide documentation. (If a student leaves the citizenship question blank but provides an alien registration number, the CPS will assume the applicant is an eligible noncitizen and forward the alien registration number to INS for confirmation of eligibility.)

If the student's status as a citizen or a national must be documented, the following are permissible forms of certification:

1. A copy of the student's birth certificate showing that he or she was born in the United States.

2. A copy of Form FS-240 ("Report of Birth Abroad of a Citizen of the United States"), the FS-545 ("Certificate of Birth-Foreign Service"), the DS-1350 ("Certificate of Birth"), or the INS Form

[12] The rules discussed in this chapter regarding documenting citizenship status also apply to the parent(s) borrowing a Federal PLUS loan.

G-639, the Freedom of Information Act Form. The first three forms are generated by the State Department and include an embossed seal including the words "United States of America" and "State Department."

3. A valid passport. (In the case of nationals who are not citizens, it will be stamped "Noncitizen National.")

4. A Certificate of Citizenship. The Certificate of Citizenship must include at least the following information:

    a) the student's name and the application number;

    b) the certificate number (found in the upper right hand corner); and

    c) the date of issuance of the certificate.

5. A Certificate of Naturalization, which contains at least the following information:

    a) the student's name and petition number;

    b) the certificate number (found in the upper right hand corner);

    c) the INS Alien Registration Number (A-number);

    d) the name of the court where the naturalization occurred; and

    e) the date of naturalization.

Although older versions of the Certificate of Citizenship and the Certification of Naturalization advise the holder not to photocopy them, INS has confirmed that the documents may be photocopied as long as it is done for lawful purposes.

Note that Social Security cards or driver's licenses are not acceptable forms of documentation of citizenship or national status, because noncitizens and nonnationals may possess these as well.

B. Citizens of the Pacific Islands

The compact of Free Association (P.L. 99-329) created three political entities from the former Trust Territory of the Pacific Islands. Two of these entities, the Marshall Islands and the Federated States of Micronesia,

voted in 1986 to end political ties with the United States. Citizens of these islands are eligible for Pell Grant, FWS, and FSEOG but are not eligible for loans. (Under the original law, eligibility was to have been limited to four years after the Compact was signed and was available only to students who had begun postsecondary education prior to the signing; however, Public Law 100-369 extended eligibility and removed the requirement of prior postsecondary training.)

The third entity, Palau, just recently voted to ratify the Compact, and its independence was effective October 1, 1994. Citizens of Palau who enroll after that date will, like citizens of the Marshall Islands and the Federated States of Micronesia, be eligible for Pell Grants, FWS, and FSEOGs but not loans.

Note that the Northern Mariana Islands voted to become a Commonwealth of the United States on November 3, 1986. Thus, citizens of these islands are now citizens of the United States and are eligible for all SFA funds on that basis.

Students who are citizens of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau should check block 2 (indicating that they are eligible noncitizens) on the citizenship question on the FAFSA and leave the item on Alien Registration Number blank. As long as the student's file contains consistent information on the student's citizenship, the financial aid administrator is not required to collect documentation.

C. Other Eligible Categories

General overview of the matching program

In contrast to citizens, nationals, and Pacific Island citizens for whom documentation is needed only in the restricted instances discussed earlier (e.g., when the student initially fails to check the box on citizenship), permanent residents and other eligible noncitizens always require documentation of eligibility status. For the majority of students, this documentation is initiated directly by the Department of Education through access to Immigration and Naturalization Service's data base. This computer review, known as "Primary Confirmation," results in a SAR comment indicating either that the student's status has been confirmed, that it was not confirmed, or that INS was unable to search its records. If the student's citizenship status is confirmed by INS, a comment is printed on the SAR to that effect and no further documentation is needed.[13]

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[13] The process of documenting citizenship status should not be confused with the process of verifying financial and household data. Although verification is required only for students selected by the CPS, documentation of citizenship status (either on the SAR or on an INS document) is required of all permanent residents and eligible noncitizens other than citizens of Palau, the Federated States of Micronesia, and the Marshall Islands.

A failure of Primary Confirmation does not mean that the student is ineligible. It could be that the student did not provide enough information when completing the application or that INS did not respond to the Department of Education within twenty-four hours. It does mean that additional procedures will be needed to document the student's eligibility. This subsequent paper process is called "Secondary Confirmation" and is required if the computer match does not confirm the student's status.

A detailed description of the Primary Confirmation process

Through the Primary Confirmation process, an applicant's noncitizen information is electronically matched with the data base kept by INS. When application data are received by the CPS, identifying information for all noncitizen applications is transferred electronically to INS's computer facility. The match is conducted based upon the Alien Registration Number that is collected for all students who indicate that they are eligible noncitizens. The Alien Registration Number is a unique number assigned to each legal alien by INS. INS is responsible for matching this information and electronically transmitting the INS response back to the CPS within 24 hours. The FAFSA processor that processed the applicant's information is given the results of the INS match, and then prints the appropriate comment on the applicant's SAR.

If the SAR comment states "Your citizenship status has been confirmed by INS and you meet the requirements for Federal student aid" (comment 143), the student's status as an eligible noncitizen has been confirmed. The SAR with that comment serves as documentation of the student's eligibility, and the student need not provide any further evidence of his or her citizenship status.

As already noted, if comment 143 appears on the student's SAR, the required documentation has been provided, and a copy of the SAR serves as proof of the student's eligible noncitizen status. There are four cases in which additional documentation is needed. In the first three cases, comments will appear on the SAR as you see them here. The four cases are:

SAR Comment 142

1. Primary Confirmation was not attempted, because certain key information (e.g., the Alien Registration Number) was illegible or blank. This comment, however, will also appear for citizens of the Marshall Islands, the Federated States of Micronesia, and Palau because such students are eligible noncitizens but would not have Alien Registration Numbers to report. Due to the status of these islands, proof of citizenship is not required in determining eligibility for SFA funds for citizens of these areas. In this case, the following comment will appear on the SAR:

   The Immigration and Naturalization Service (INS) could not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school

within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

2. The information necessary to perform a match was available on the application but did not match the information in the INS ASVI data base. In this case, the following comment will appear on the SAR:

   SAR Comment 144

   The Immigration and Naturalization Service (INS) did not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

3. The INS was not able to match the student's record within 24 hours or that the computer matching program was not in service. In this case, the following comment will appear on the SAR:

   SAR Comment 145

   The Immigration and Naturalization Service (INS) was not able to process our request to confirm your statement that you are an eligible noncitizen. You must submit proof of your eligible noncitizen status to your school before you may receive federal student aid.

4. If the school has on file conflicting data that causes it to question the validity of the match, further documentation is required. (The General Provisions require that the school resolve any conflicting information before paying the student or certifying a loan application.)[14]

   Inconsistent Information

STUDENT RIGHTS WITH RESPECT TO THE COMPUTER MATCH

If the student's citizenship status requires resolution, the first step is to ask the student to provide documentation of his or her status. If the documents do not appear to constitute reasonable evidence of eligible noncitizen status, the school may determine the applicant to be ineligible for SFA funds without INS verification. On the other hand, if the documents submitted appear to constitute reasonable evidence of eligible noncitizen status, the school must then submit them to INS to verify their correctness. Sending the student's documentation to INS for verification is a procedure known as "Secondary Confirmation," and it requires the school to

[14] Note, however, that the school may not be able to use Secondary Confirmation to resolve the conflict if the student's status was confirmed through Primary Confirmation. See page 2-64 of this appendix.

complete a Form G-845S. Instructions for completing the Form G-845S are found in the next section of this appendix.

Limitations on using results of the match to deny aid

The Computer Matching and Privacy Protection Act of 1988 prohibits a school from suspending, terminating, or reducing SFA funds, making a final denial of SFA funds, or taking other adverse action against a student based on the results of an interagency data match unless the student has been notified and has had time to respond to the notification.

As noted on the SAR for any student who will require further documentation, the student is permitted at least 30 days from the time he or she submits the SAR to provide that documentation. During this period and until the results of the Secondary Confirmation are received, a financial aid administrator may not deny, reduce, or terminate aid to a student. Disbursements may be made to an otherwise eligible student pending INS response if at least 15 business days have elapsed since the date on which the documentation was submitted to INS. (Of course, the general exclusions for inconsistent data being on file are applicable here.)

Liability

A school is not liable for an error in its determination that a student is an eligible noncitizen, if in making that determination it had no conflicting data on file and it relied on 1) a SAR indicating that the student meets the requirements for federal student aid; 2) an INS determination of an eligible immigration status in response to a request for Secondary Confirmation; or 3) immigration status documents submitted by the student, if INS did not respond in a timely fashion. The student (or parent for Federal PLUS borrowers) is liable for any SFA funds received if he or she is ineligible.

Appeal rights for recipients of SFA funds

The school should establish procedures to ensure that if SFA funds are disbursed and the school subsequently determines (using Secondary Confirmation) that the student recipient is not an eligible noncitizen, the student is provided with a notice of the determination, an opportunity to contest the determination, and notice of the school's final determination. The student may contest the determination by submitting to the school all additional documents the student believes support his or her claims to be an eligible noncitizen. If the documents appear to support the student's claim, the school should submit them to INS using Secondary Confirmation. The school's final determination would be based on the results of Secondary Confirmation.

Require-ments for notification to students

For every student required to undergo Secondary Confirmation, the school is required to furnish written instructions providing—

- an explanation of the documentation the student must submit as evidence of eligible noncitizen status. (The "Summary Chart of Acceptable Documentation" found at the end of this appendix would be acceptable);

- the institutional deadline for submitting documentation (which must be at least 30 days from the date the school receives the results of the Primary Confirmation on the SAR), and notification that if the student misses the deadline, he or she may not receive SFA funds for the award period or period of enrollment; and

- an acknowledgment that no determination of the student's eligibility will be made until an opportunity to submit immigration status documents is provided.

USING THE G-845S FOR SECONDARY CONFIRMATION

If the student's SAR does not confirm his or her status as an eligible noncitizen, the student must provide the school with appropriate documentation (as described in this appendix) showing that he or she is a permanent resident or other eligible noncitizen. The school must then initiate a "Secondary Confirmation" of this documentation with INS to ensure that it is valid.

To initiate Secondary Confirmation, the school must complete a Form G-845S. The G-845S ("Document Verification Request") is a standard INS form that is used to ask INS's File Control Office to confirm that an alien noncitizen's documentation is valid. To complete the G-845S, fill in each of the items on the top half of the form, providing the Alien Registration Number in the first item, marking the box for "Education Grant/Loans/Work Study" in the box entitled "Benefits" (#8), and providing your name as the submitting official and the school's name as the submitting agency. Under item 6, Verification Number, the school must provide the 13-digit number that is located in the FAA Information section with the Match Flags.

No Verification Number

There are three circumstances in which a student will not receive a Verification Number:

1. **No match was performed due to technical reasons.** If the student did not receive a number because no match was performed due to technical reasons (Comment 145), the aid administrator must write in large (preferably red) letters at the top of the G-845S "Comment 145 present."

2. **No match was performed because the student failed to provide an alien registration number.** If the match was not performed because the student failed to provide an alien registration number on the application, the school cannot initiate Secondary Confirmation for the student. Instead, the SAR should be resubmitted for correction with the Alien Registration Number.

3. **The student's eligible noncitizen status was confirmed by the match.** A school is not allowed to initiate Secondary Confirmation for such students unless it has conflicting information about the student's status or reason to believe the status reported is incorrect. However, the school will not be able to use Secondary Confirmation to help resolve the conflict unless it has a Verification Number from a previous or subsequent transaction. The school must still resolve the conflict before paying the student, and it may request that the student submit either the documentation normally required for Secondary Confirmation or any other documentation necessary to determine the student's correct status.

Photocopies of the front and back sides of the student's citizenship document (such as an I-94 with the appropriate stamps or an I-551) must be attached to the Form G-845S. It is very important that all pertinent visas and documents be submitted along with the G-845S. The G-845S is used only to certify the authenticity and identity of immigration documents attached to it; it cannot be submitted to INS by itself to determine a student's eligibility for SFA funds. Therefore, an applicant who has lost documents or surrendered these documents when entering prison is responsible for obtaining copies of these documents before the G-845S is submitted. (See "Replacing Lost INS Documents" in this appendix.) Schools may request copies of immigration documents directly from penal institutions at the request of an applicant.

The school must send the completed document and attachments to the File Control Office serving its locale (see the list at the end of this appendix) not later than 10 business days after receiving the documentation from the student.

A status-verifier at the District INS Office will search the applicant's record to confirm the applicant's immigration status. The status-verifier at the INS office completes the "INS Response" section of the G-845S and sends it back to the financial aid administrator, generally within 10 working days of receipt. ED recommends that the school document its mailings to INS. If the school has not heard from INS, the aid administrator may wish to call the INS office to make sure that the G-845S was received. If the school does not receive a determination from INS within 15 working days (10 working days plus 5 days mail time) of the date the school sent the G-845S, the aid administrator should review the file to determine whether he or she feels the student meets the citizenship eligibility requirements based on the documentation the student provided and the information in this appendix. If the administrator believes that the student meets the requirements, the school can make any disbursements for which the student is otherwise eligible, noting in the student's file that INS exceeded the time allotment and, thus, citizenship eligibility was determined without the benefit of INS verification.

DOCUMENTATION OF PERMANENT-RESIDENT STATUS

As noted earlier, an applicant who claims to be a permanent resident but whose status was not confirmed through Primary Confirmation must provide copies of his or her INS documents (as described below). The following is a discussion of the acceptable documents to accompany the G-845S.

Standard documentation

The standard documentation for a permanent resident of the United States is the Alien Registration Receipt Card (Form I-151 or Form I-551). Both forms are referred to colloquially as "green cards," although the newly issued forms are most often white with blue or pink wavy lines. The INS is replacing cards issued before 1979 with new, counterfeit-resistant cards. The deadline for permanent residents to replace their old cards is March 20, 1996. Valid cards issued before 1979 should be accepted until that date. A passport or an I-94 is also acceptable if it has one of the following stamps:

- A passport stamped "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid Until _____. Employment Authorized."
- A Departure Record (form I-94) stamped as above or stamped "Temporary Form I-551. Admission for permanent residence at _____(port) on _____ (date) verified. _____ (signature of issuing officer) _____ (title)." This Form I-94 will also contain the individual's photo and an INS seal over the photo and the stamp.

Special circumstances

I-551 with baby picture

If the student has an I-551 with a baby picture, the aid administrator should suggest that the student update the I-551 with INS. Permanent residents are expected to obtain a new picture and be fingerprinted at the age of 14. However, the school may submit the documents to INS and ultimately pay a student who has an I-551 with a baby picture, as long as it can confirm that the I-551 belongs to the student. This can be accomplished by comparing the I-551 to a current photo ID that has the student's name, date of birth, and signature. (The current photo ID must also be consistent with any identifying information in the student's file at the school.)

Applicants for permanent residence

A student who has an approved application for permanent residence on file with INS and who is waiting for an Alien Registration Receipt Card may not have proof of his or her citizenship status. The financial aid administrator should advise such a student to contact his or her local INS

office for the passport stamp or I-94 stamp described above, as these are available to the student before the normal permanent-residency documentation.

Note that an *application* for permanent-resident status is not sufficient for eligibility for SFA funds.

Conditional Permanent Resident

The Marriage Fraud Amendments established a two-year conditional permanent-resident status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent-resident status if the marriage took place less than two years before the spouse applied for permanent-resident status or citizenship. This status may also apply to any of the spouse's children who are aliens.

An alien who is granted conditional permanent-resident status will be given a Form I-551. This form is the same I-551 that is issued to regular permanent residents, except that the card will have a "C" (for "conditional") on the front and an expiration date on the back. Once the two-year period expires, a conditional permanent resident must file a petition for removal of this restriction within 90 days after the end of that period. The alien's petition will then be reviewed. If the results of the review are satisfactory, the restriction will be dropped, and new documents will be issued. Conditional permanent residents holding an I-551 with a valid expiration date are eligible to receive aid under the SFA programs.

DOCUMENTATION FOR OTHER CATEGORIES OF ELIGIBLE NONCITIZENS

Procedures for students who belong to other categories of eligible noncitizens (such as a refugee, asylee, parolee) and for whom Primary Confirmation did not confirm their status are similar to those just described for permanent residents. The applicant must provide copies of his or her INS documents (as described below). A school must then initiate Secondary Confirmation of these documents, using the G-845S.

For humanitarian reasons, a student who has been designated by INS as lawfully present in the United States for other than temporary purposes is considered eligible for aid from the SFA programs. Evidence of this lawful presence is given on the departure record (Form I-94). The I-94 departure record will contain one of the following:

Refugee

- A stamp indicating that the student has been admitted to the United States as a refugee. This stamp will read either "Admitted as a Refugee Pursuant to Section 207 of the Act. If you depart the United States you will need prior permission to

return. Employment Authorized," or "Status changed to refugee pursuant to Section 207 (c)(2) of the Immigration Nationality Act, on _____. Employment Authorized."

- A stamp indicating that the student has been granted asylum in the United States. This stamp will read "Asylum status granted pursuant to section 208, INS. Valid to _____. Employment Authorized." Persons who have been granted asylum in the United States are given employment authorization for one year. At the end of that year, they are eligible to apply for permanent residence. Asylum status continues unless revoked by INS or until permanent residence status is granted.

Asylee

> *Note that a refugee or an asylee may apply for permanent-resident status. During the period in which the application is being reviewed, the student must surrender his or her original I-94 to INS. INS will give the student a copy of the original I-94 which will include the endorsement "209a (or 209b) pending. Employment Authorized." Students with this form of documentation are eligible for SFA funds.*

- A stamp indicating that the student has been admitted to the United States as a conditional entrant. Although this status remains valid, INS stopped using this category on March 31, 1980. Therefore, if the school does not hear from INS within the permissible time frame, the school should not disburse to a student who shows an I-94 with conditional-entrant status granted after March 31, 1980.

Conditional Entrant

- A stamp indicating that the student has been paroled into the United States for an indefinite period of time for humanitarian reasons. The word "indefinite" and/or "humanitarian" will be handwritten into the stamp.

Parolee

- A stamp across the face of the I-94 indicating that the student has been classified as a "Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981." Note that a document showing that the holder is a Cuban-Haitian entrant is valid even if the expiration date would make it appear no longer valid.

Cuban-Haitian

The I-94 for some Cuban-Haitian Entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Alternately, the student may be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because application for permanent residence is not sufficient to make a student eligible for SFA funds, if a student is a Cuban-Haitian entrant, he or she must request from INS documentation of that status.

Suspension of Deportation

If a person is applying for a suspension of deportation, he or she must request a hearing before an Immigration Law Judge who will render an oral or written decision. If the decision is favorable, INS will give the applicant a Form I-551, which will certify his or her lawful permanent-resident status. Therefore, there is no special category for persons who have received a suspension of deportation.

Family Unity Status

The Form I-797, "Application for Voluntary Departure Under the Family Unity Program," indicates that the student has been granted relief from deportation under the Family Unity Program. In order to qualify for SFA funds, the student must also be the beneficiary of an approved "Immigrant Petition for Relative" or "Visa Petition for Spouse." These statuses are documented on the Form I-797. Note that such a student may receive aid even if he or she has not yet received a visa.

Immigration Reform and Control Act

The Immigration Reform and Control Act of 1986 (IRCA) made it possible for certain categories of aliens to receive temporary-resident status and eventually permanent-resident status. These categories included aliens who 1) entered the United States illegally before January 1, 1982, resided continuously in the United States between that date and the date they applied for temporary-resident status, and met certain other eligibility requirements or 2) performed qualifying agricultural employment in the United States during defined periods and met certain other eligibility requirements. This legalization program was colloquially called the amnesty program.

An alien who was eligible for temporary-resident status under IRCA and applied to an INS office was issued an Employment Authorization Card (Form I-688A), which permitted an eligible alien to work legally in the United States while his or her application was being processed. Although the deadline for applying for amnesty under Section 245 of IRCA has expired, some students may still hold statuses relating to the amnesty process if their cases are being disputed in one of several lawsuits. A student who has a Form I-688A is not eligible for SFA funds. These forms expired 6 months from the date of issue. Except for those applicants whose cases are still being disputed, some time during the 6-month effective period of the Form I-688A, the holder should have been notified whether the application for temporary-resident status was approved.

Temporary Resident Card (I-688)

The next step in the amnesty process was the issuing of the interim Form I-688B, or the I-766. These Employment Authorization Documents (EAD) are used for employment authorization purposes only. None of these documents (I-688A, I-688B, or the I-766) is sufficient to qualify the student for SFA eligibility.

If the application for temporary-resident status was approved, the applicant would have received the Temporary Resident Card (Form I-688),

popularly called a "red card," which specifies an expiration date. Students who have valid Forms I-688 are eligible for SFA funds.

Student visas, etc., not acceptable

A Student with an F-1 or F-2 Student Visa, or a J-1 or J-2 Exchange Visitors Visa, L-1, or G series Visa (pertaining to international organizations) is not eligible to apply for SFA funds, unless he or she has a Form I-94 with one of the endorsements listed earlier. Also someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive SFA funds.

Temporary protective status not eligible

Some students may present Forms I-94 stamped "Temporary Protected Status." This status is used for persons who are from countries that are in upheaval, but it differs significantly from "Refugee" or "Asylum," because it provides no conversion to permanent-resident status. A student with this status is *not* eligible for SFA funds.

Stamp and Validation

Each of the documents described above will be stamped in a rust-colored ink. It will normally contain a validation indicating the office of issuance and a code to indicate the officer who prepared the document. Examples of codes are "WAS-82" (Washington District Office, Officer number 82) or "1/13/84 SPO.KD" (Spokane Office, officer's initials KD).

The school must keep in the student's file a copy of the citizenship documentation a student submits, along with the G-845S results. Documentation provided as proof of the student's citizenship status (such as the Alien Registration Receipt Card and the Departure Record) can legally be photocopied by the student, as long as the photocopies are made for this lawful purpose. It is important that the student understands that he or she is permitted to photocopy an INS document only for lawful purposes such as applying for SFA funds. Photocopying of the documents is generally not permitted for other purposes.

Financial aid administrators must always examine and copy original documents. Sometimes the endorsement (a stamp) does not photocopy well due to the ink color on the original document. In this case, the aid administrator should hand copy the exact endorsement on the photocopy. Because the endorsement can be found anywhere on the I-94, it can be difficult to locate. Note that although the endorsement may also be on the student's passport, it *must* be on the I-94.

INS offices do not have uniform procedures or stamps. The school should contact the local INS office with questions regarding the acceptability of citizenship documentation.

INTERPRETING THE G-845S

A single form, INS Form G-845S, is used both for the financial aid administrator's request for a Secondary Confirmation and for INS to respond to the school's request. In reviewing INS's response, bear in mind that the G-845S reflects the student's most recent status with INS and, thus, may show a different status than the documentation presented by the student. In this case, the school should verify that both documents identify the same person. If so, the status on the G-845S should be used since it is the most current one.

The following are possible INS responses and their implication with respect to the student's eligibility. After each item, we have indicated whether a check in this block by INS indicates—

1. eligibility, in which case payments to the student may be made,

2. ineligibility, in which case the student is not eligible for payment unless the student later provides other valid documentation from INS showing that he or she is an eligible-noncitizen, or

3. inconclusive eligibility, in which case the aid administrator must examine any other boxes checked by INS to determine whether payment can be made. A check in such a box does not indicate eligibility or ineligibility.

Permanent Resident (Eligible)

1. This document appears valid and relates to a Lawful Permanent Resident alien of the United States: Block #1 is checked when the documentation submitted is determined to be a valid I-551, I-151, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence."[15] Immigration law allows this person to live and work in the United States on a permanent basis.

Conditional Resident (Eligible)

2. This document appears valid and relates to a Conditional Resident alien of the United States: This is checked when the documentation submitted is determined to be a valid I-551, I-181, or I-94 or a passport stamped with the notation "Processed for I-551, Temporary Evidence of Lawful Admission for Permanent Residence." Immigration law allows this person to live and work in the United States; however, INS will reevaluate the person's status within two years. Conditional resident-alien status is granted to an alien who marries a U.S. citizen or national or permanent-resident alien and who must remain married to that spouse for two years to maintain resident status.

[15] The term "temporary" as used here refers to the documentary evidence. It is not intended to imply that the immigration status itself is temporary.

3. This document appears valid and relates to an alien authorized employment as indicated below...: This is checked to indicate whether the authorization covers full-time or part-time employment and when, if applicable, the period of employment will expire. "Indefinite" will be indicated if there is no specific expiration date for employment eligibility. Employment authorization by itself does not indicate that the student is eligible for SFA funds.

Authorized Employment (Inconclusive Eligibility)

4. This document appears valid and relates to an alien who has an application pending for...: This is checked when an alien is waiting for a new immigration status or a change of immigration status. If a change of status is pending, the appropriate block indicating the current status will also be checked elsewhere on the G-845S. A pending application for an immigration status does not (by itself) indicate that the student is eligible for SFA funds.

Application Pending (Inconclusive Eligibility)

5. This document appears valid and relates to an alien having been granted asylum/refugee status in the United States: This is checked when an alien has been granted asylum or refugee status in the United States because of persecution or a well-founded fear of persecution in his or her country of nationality. These statuses are considered temporary. Documentation presented may include either Form I-94 stamped with "Section 207-Refugee" or "Section 208-Asylee" or a Refugee Travel Document (Form I-571).

Asylum/ refugee Status (Eligible)

6. This document appears valid and relates to an alien paroled into the United States pursuant to Section 212 of the Immigration and Naturalization Act: This is checked for an alien who has been allowed to enter the United States under emergency conditions or under the determination that his or her entry is in the public interest. This status is temporary. Documentation presented may include Form I-94 stamped with "Section 212(d)(5) - Parolee."

Parolee (Eligible)

7. This document appears valid and relates to an alien who is a Cuban-Haitian entrant: This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980 and Haitians who entered the country illegally before January 1, 1981.

Cuban-Haitian Entrant (Eligible)

8. This document appears valid and relates to an alien who is a conditional entrant: This is checked to indicate a refugee who entered the United States under the seventh preference category of Public Law 89-236 or adjusted his or her status to lawful permanent-resident alien under that category. Documentation presented may include Form I-94 stamped with "Section 203(a)(7)." This status was defined by Section 203(a)(7) of the Immigration and Nationality Act but was later abolished by the Refugee Act of 1980. Those noncitizens who fall into this category

Conditional Entrant (Eligible)

would have entered the United States prior to the enactment of the Refugee Act of 1980.

Alien-Nonimmigrant (Not Eligible)

9. This document appears valid and relates to an alien who is a nonimmigrant. This is checked to indicate an alien who is temporarily in the United States for a specific purpose. This category includes students, visitors, and foreign government officials. Documentation presented may include the Form I-94.

Employment not Authorized (Not Eligible)

10. This document appears valid and relates to an alien not authorized employment in the United States: This block is checked when an alien's status prohibits employment in the United States.

Searching Indices (Inconclusive Eligibility)

11. Continue to process as legal alien. INS is searching indices for further information. This block is checked if INS is withholding judgment regarding the status or validity of documentation pending further investigation. This statement does not imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits should not be denied on the basis of this statement. The document should be accepted at face value until INS sends a final notification regarding immigration status. If the student appears to be an eligible noncitizen based upon the school's review of the documents, the school may pay the student any SFA funds for which he or she is eligible. If INS later notifies the school that the student's documentation is not valid, the school must cancel further disbursements but is not liable for the payments already made.

Invalid Document (Not Eligible)

12. This document is not valid because it appears to be altered or counterfeit: This is checked when the documentation presented has expired or when an item appears to be counterfeit or altered. Notify the student that unless corrective action is taken with INS, the case will be submitted to the Office of Inspector General (OIG). Additional communication with INS will allow any unfortunate mistakes in the status-verifier's review to be corrected. Until this discrepancy is resolved, no further aid may be disbursed, awarded, or certified. If the student does not take corrective action in a timely manner, the case must be reported to the OIG.

The INS will initial and stamp the front of the G-845S in the signature block.

Comments on back of G-845S

The comments block on the back of the G-845S is used for further instructions. The intended meaning of each of the following blocks that may be checked follows:

13. ❑ **No determination can be made from the information submitted. Please obtain a copy of the original alien registration documentation and resubmit.** This is normally

checked when the financial aid administrator has failed to provide copies of any of the INS documents. It is often accompanied by a listing of acceptable forms of documentation. The financial aid administrator should resubmit the G-845S with copies of the original alien documentation.

14. ❑ **No determination can be made without seeing both sides of the document submitted.** Resubmit the G-845S with copies of both sides of each document.

15. ❑ **Copy of document is not readable.** Resubmit the G-845S with higher quality copies of the original alien documentation.

The comments listed under PRUCOL: "Permanently Residing Under Color of Law" reflect information about aliens who have applied for special treatment (for example, by virtue of having life-threatening medical situations) that may cause INS to refrain from seeking their expulsion. These blocks will be checked only if a request for evaluation for PRUCOL is made in Block 8 on the first page of the G-845S. Comments will rarely be made in this section because the aid administrator would not have asked for a PRUCOL evaluation when submitting the G-845S. However, in all cases, INS should check other responses on the form as well, and these other responses should be used in the determination of the student's status. Therefore, any INS response to items 16 and 17 should be considered **Inconclusive Eligibility**.

Reconciling discrepancies

When Secondary Confirmation results in an eligible status, the G-845S must be maintained in the student's file. If a discrepancy is discovered as a result of the INS response, the school must notify the student that he or she must correct the discrepancy with INS and that no certification of loans or further disbursement of funds can be made until the discrepancy is corrected. If the discrepancy is not reconciled with INS, the student must repay all aid except wages earned under the Federal Work-Study Program. Whenever the student is able to provide new information, it must be submitted to INS on a new G-845S form.

As long as the school has followed the procedures outlined here, including notifying the student of the discrepancy and withholding further payments and loan certifications as soon as a discrepancy is found, the school is not liable for aid disbursed prior to Secondary Confirmation. (This, of course, assumes that the school had no other conflicting information prior to making the disbursement and had reviewed the documentation and felt on that basis that the student was eligible.)

UPDATING CITIZENSHIP STATUS IN LATER AWARD YEARS

There are several cases in which the school must verify a student's citizenship in a subsequent award year if that student again does not receive Primary Confirmation through the application process.

Updating the Temporary Form I-551

A student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year and, thus, should not still be holding a temporary card. The school should refer the student to INS to obtain a permanent I-551 or an updated endorsement on the previous card. The documents should also be submitted to INS on a G-845S.

Conditional permanent residents, refugees, asylees, Cuban-Haitian entrants

The school must also document the citizenship status each award year, and obtain Secondary Confirmation if Primary Confirmation has not produced a match for a conditional permanent resident, a refugee, a Cuban-Haitian Entrant, or a person granted asylum. Students in any of these categories may have been adjusted to permanent-resident status or may have had their statuses revoked.

Citizens, nationals, and Pacific Islanders

The school does not have to perform Secondary Confirmation to document a student's citizenship status in subsequent award years if it has previously documented that the student is a U.S. citizen or national, is a citizen of the Republic of Palau, the Federated States of Micronesia or the Marshall Islands, or has a Form I-551 or I-151.

REPLACING LOST INS DOCUMENTS

If a student cannot locate his or her official INS documentation, the student must request that the documents be replaced because immigrants are required to have documentation of their statuses in their possession. Requests for replacement documents should be made to the INS District Office that issued the original documents. (See addresses at the end of this appendix.)

The student will be asked to complete a Form I-90, "Application to Replace Lost Documents." A temporary I-94 may be issued while the replacement documents are pending.

In cases of the student's undue hardship, in which the student urgently needs documentation of his or her status, the Freedom of Information (FOI) Act allows the student to obtain photocopies of the documents from the INS District Office that issued the original documents. The student may submit an INS Form G-639 to make this request or may simply send a letter to the district office. If the student is not sure which district office

issued the original documents, he or she may submit the request to the FOI office in Washington, D.C. (See addresses at the end of this appendix.)

ADDITIONAL INFORMATION

On the following pages, we have included several reference materials that you may find helpful:

1. A summary chart of the documentation requirements discussed in this appendix.

2. Examples of the principal types of documentation discussed in this appendix.

3. A copy of the G-845S. This may be photocopied and used for submission to INS.

4. A glossary of terms used in processing applications for noncitizens.

5. A list of INS offices and addresses.

SUMMARY CHART OF ACCEPTABLE DOCUMENTATION

As an alternative for a student who is having trouble obtaining replacement INS documents, the student may use a G-639 to request photocopies of the original documentation.

CITIZEN NOT BORN IN UNITED STATES	
Certificate of Citizenship	Must have student's name and application number, certificate number, and the date the certificate was issued.
Certificate of Naturalization	Must have student's name and petition number, certificate number, Alien Registration Number, name of the court (and date) where naturalization occurred.
"Certification of Birth Abroad" Form FS-545, DS-1350, or FS-240, "Report of Birth Abroad"	Must have embossed seal reading "United States of America and "State Department."
U.S. Passport	
NONCITIZEN NATIONAL	
U.S. Passport	**Must be stamped "Noncitizen National."**
PERMANENT RESIDENT	
"Alien Registration Receipt Card" Form I-151, I-551, or I-551C	The I-551C must have a currently valid expiration date.
Passport	Must be stamped "Processed for I-551" with expiration date.
I-94	Must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.
OTHER ELIGIBLE NONCITIZEN	
"Temporary Resident Card" Form I-688	Must have expiration date.
"Arrival-Departure Record" Form I-94	Must be stamped as a Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, Cuban-Haitian Entrant.
"Family Unity Status" Form I-797	Approved "Application for Voluntary Departure Under Family Unity Program." Must also have I-797 with approved "Visa Petition for Spouse" or "Immigrant Petition for Relative."

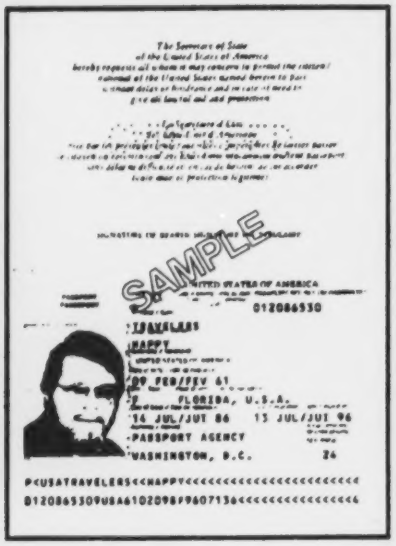
CITIZEN NOT BORN IN U.S./NONCITIZEN NATIONAL

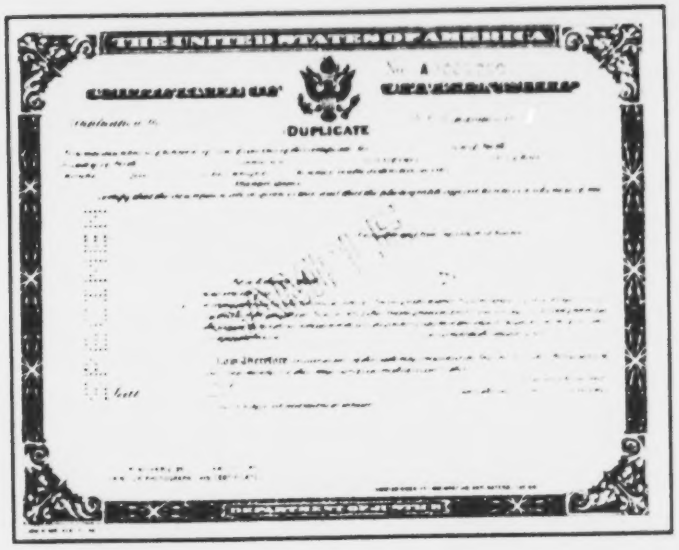
U.S. Passport

Can be used to document citizenship for citizen born abroad.

For noncitizen national -- must be stamped "Noncitizen National"

(Note that a passport issued by another country may be used to document permanent resident status, if it has the endorsement "Processed for I-551" and has a currently valid expiration date.)





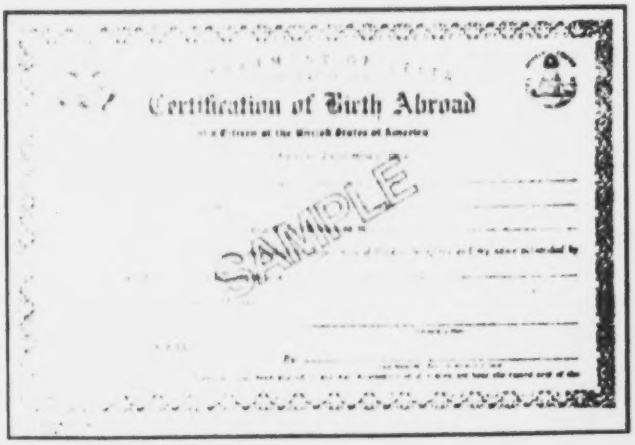
Certificate of Citizenship or Naturalization

The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s); who became citizens when their parents were naturalized; or who were adopted by U.S. parents.

The Certificate of Naturalization is issued to naturalized U.S. citizens.

Certification of Birth Abroad

Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.



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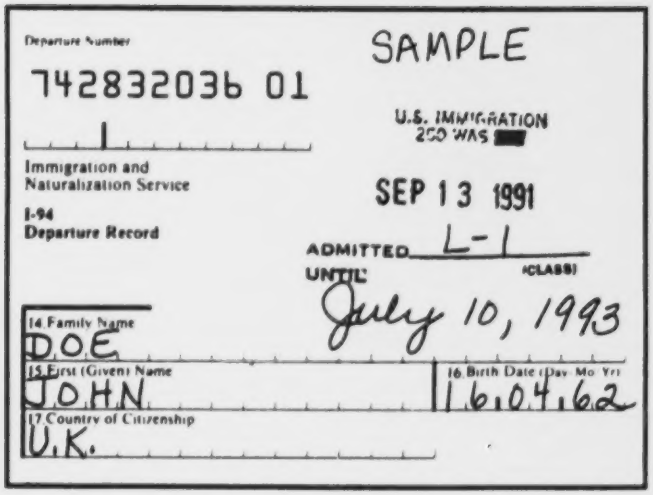
PERMANENT RESIDENT OTHER ELIGIBLE NONCITIZEN


Departure Number SAMPLE

74283203b 01

U.S. IMMIGRATION
200 WAS

Immigration and
Naturalization Service

SEP 13 1991

I-94
Departure Record

ADMITTED L-1
(CLASS)

UNTIL July 10, 1993

14 Family Name
DOE

15 First (Given) Name
JOHN

16 Birth Date (Day Mo Yr)
16.04.62

17 Country of Citizenship
U.K.

I-94 Arrival-Departure Record

For permanent resident status -- must be stamped "Processed for I-551" with expiration date, or "Temporary Form I-551," with appropriate information filled in.

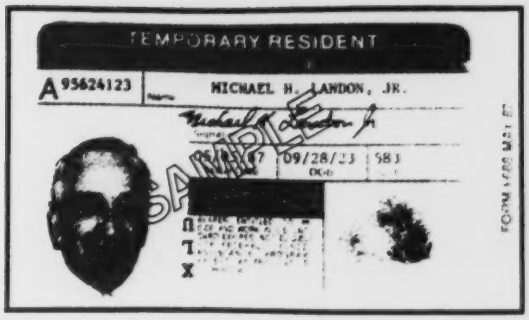
For other eligible noncitizens -- must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parollee, Cuban-Haitian Entrant.

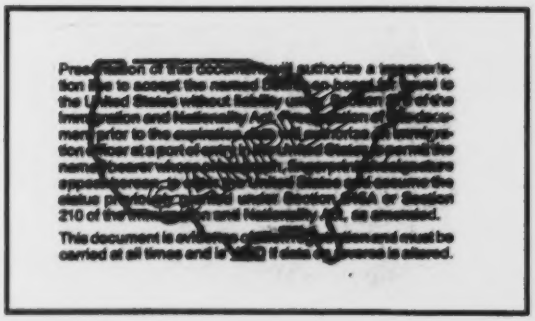
OTHER ELIGIBLE NONCITIZEN

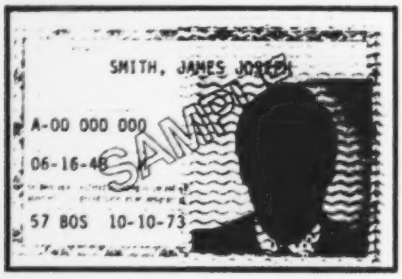
Temporary Resident Card I-688

Issued to aliens who are granted temporary resident status under the Immigration and Reform Control Act of 1986. Note that a student with an "Employment Authorization Card" (I-688A) is *not eligible* for SFA funds.

A student with an I-688B or I-766 may or may not be eligible for SFA funds. Request additional INS documentation to determine this student's eligibility.







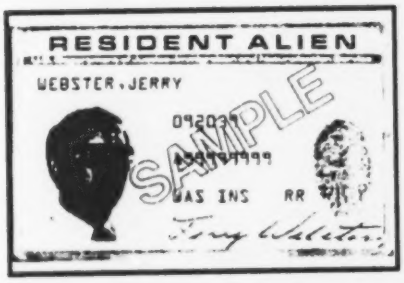
Alien Registration Receipt Card I-151

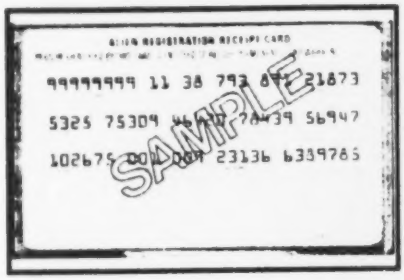
Issued prior to June 1978 to permanent residents. No longer issued, but valid indefinitely. Often referred to as a "green card," though it is not always green.

Alien Registration Receipt Card I-551 (Resident Alien Card)

Issued to permanent residents. The I-551 is a revised version of the I-151. Often referred to as a "green card," though it is not always green.

The "Conditional Resident Alien Card" is an I-551 that is issued to conditional permanent residents such as alien spouses. This card is identified by a "C" on the front, and has an expiration date on the back.





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U.S. Department of Justice
Immigration and Naturalization Service

SAVE

OMB #1115-0122
Document Verification Request

Section A - *to be completed by the submitting agency.*

To: Immigration and Naturalization Service

6. Verification Number

7. ☐ Photocopy of Document Attached.
(If printed on both sides, attach a copy of the front and of the back.)
☐ Other Information Attached *(Specify documents).*

From: Typed or Stamped Name and Address of Submitting Agency

Attn: Status Verifier
(INS may use above address with a #20 window envelope.)

8. *(Benefit)*	*(Your Case Number)*
☐ AFDC	
☐ Education Grant/Loans/Workstudy	
☐ Food Stamp	
☐ Housing Assistance	
☐ Medicaid/Medical Assistance	
☐ Unemployment Insurance	
☐ Employment Authorization	
☐ **Other** *(specify)*	

1. Alien Registration or I-94 Number
2. Applicant's Name *(Last, First, Middle)*
3. Nationality
4. Date of Birth *(Month/Day/Year)*
5. Social Security Number
9. Name of Submitting Official
10. Title of Submitting Official
11. Date
12. Telephone Number

Section B - *to be completed by INS*

INS RESPONSE: From the documents or information submitted and/or a review of our records we find that:

1. ☐ This document appears valid and relates to a **Lawful Permanent Resident alien** of the United States.
2. ☐ This document appears valid and relates to a **Conditional Resident alien** of the United States.
3. ☐ This document appears valid and relates to an alien **authorized employment** as indicated below:
   a. ☐ Full-Time
   b. ☐ Part-Time
   c. ☐ No Expiration (Indefinite)
   d. ☐ Expires on *(specify Month/Day/Year, below)*
4. ☐ This document appears valid and relates to an alien who has an application pending for *(specify INS benefit below)*
5. ☐ This document relates to an alien having been **granted asylum/refugee** status in the United States.
6. ☐ This document appears valid and relates to an alien **paroled** into the United States pursuant to Section 212 of the I&N Act.
7. ☐ This document appears valid and relates to an alien who is a **Cuban/Haitian entrant**.
8. ☐ This document appears valid and relates to an alien who is a **conditional entrant**.
9. ☐ This document appears valid and relates to an alien who is a **nonimmigrant** *(specify type or class below)*
10. ☐ This document appears valid and relates to an alien **not authorized employment** in the United States.
11. ☐ Continue to process as legal alien. INS is searching indices for further information.
12. ☐ This document is **not valid** because it appears to be *(check all that apply)*
    a. ☐ Expired
    b. ☐ Altered
    c. ☐ Counterfeit

INS Stamp

☐ **Please see reverse for additional comments.**

Form G-845S (Rev. 06/06/89) Y

Comments

13. ☐ No determination can be made from the information submitted. Please obtain a copy of the **original** alien registration documentation and resubmit.

14. ☐ No determination can be made without seeing **both** sides of the document submitted *(please resubmit request)*.

15. ☐ Copy of document is not readable *(please resubmit request)*.

"PRUCOL"

For Purposes Of Determining If Alien Is Permanently Residing Under Color Of Law Only!

16. ☐ INS actively pursues the expulsion of an alien in this class/category.

17. ☐ INS **is not** actively pursuing the expulsion of an alien in this class/category, at this time.

18. ☐ Other

Instructions

- **Submit copies of both** *front and back* **of alien's original documentation.**
- **Make certain a** *complete return address* **has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of (7) or (8) digits. Also in this block may be recorded the number found on Form I-94. (Check the front and back of the I-94 document and if the "A" Number appears, record that number when requesting information instead of the longer admission number as the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without copies of applicant's original documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the Immigration and Naturalization Service.

*U.S. Government Printing Office: 1991 — 301-478/49236

GLOSSARY

You may encounter several unfamiliar terms in processing applications from noncitizens. The definitions in this glossary are informational in nature and should not be used for any other purpose. They do not represent any formal source or policy of INS. Official definitions have been shortened or edited whenever possible.

Alien: Any person who is not a citizen or national of the United States.

Alien File (A-file): The history file containing all data and documentation pertaining to an individual alien. An A-file is created or amended when any one of several actions occurs, for example, applications for permanent resident status or for a Certificate of Citizenship. Alien Registration Numbers are assigned at the local File Control Office (FCO) processing the initial action.

Alien Registration Number (A-Number): An eight- or nine-digit number assigned to an alien at the time the alien file is created.

Alien Status Verification Index (ASVI): A data base designed for the use of entitlement benefit agencies in verifying alien immigration status in accordance with the Immigration Reform and Control Act of 1986 (IRCA). The data base is commonly known as "SAVE."

Asylee: An alien, already in the United States or at a port of entry, who is granted asylum in the United States. Asylum can be granted to those persons who are unable or unwilling to return to their countries of nationality, or to seek the protection of those countries, because of persecution or a well-founded fear of persecution. Asylum is covered by Section 212 of the Immigration and Nationality Act of 1952 (I&NA). (See also the definition for refugee.)

Central Index System (CIS): An automated system containing information on aliens. The CIS, from which SAVE is extracted, is INS' most complete data base on aliens in the United States.

Certificate of Citizenship: An identity document proving U.S. citizenship.

Certificate of Naturalization: An identity document proving U.S. citizenship.

Change to Nonimmigrant Status: The act of changing a nonimmigrant's classification; for example, from visitor to student.

Citizen: A person born in a country or who has become a naturalized citizen of that country.

Conditional Entrant: A refugee. (See definition for refugee.)

Conditional Resident Alien: An alien granted a two-year period of permanent resident status based on a "qualifying" marriage to a U.S. citizen, national, or permanent resident

alien. Children of a U.S. citizen, national, or permanent resident alien also may have this status. The conditional status may be removed after two years if INS rules favorably on granting lawful permanent resident status to the alien.

Cuban-Haitian Entrant: The status afforded to (a) Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980, and (b) Haitians who entered the country illegally before January 1, 1981. This status is covered by Section 502(e) of the Immigration and Nationality Act.

Document Verification Request (Form G-845S): A form designed to request Secondary Confirmation of alien status from INS under the Immigration Reform and Control Act of 1986.

Documented Alien: An alien who is in the United States and who is in possession of valid documents.

Family Unity Status: Individuals who have been granted relief from deportation by INS under the provision of the Family Unity Program and who are the beneficiaries of an approved "immigrant petition for relative" or "visa petition for spouse" are eligible noncitizens for purposes of the Title IV programs.

File Control Office (FCO): An INS field office where alien files are maintained.

Green Card: A slang term describing the Alien Registration Receipt Card (Form I-151 or Form I-551). Many versions of these forms are not green in color.

Illegal Alien: A foreign national (a) who entered the United States without inspection or with fraudulent documentation or (b) who, after entering legally as a nonimmigrant, violated status and remained in the United States without authorization. (See also definition for *undocumented alien.*)

Immigrant: An alien who has been lawfully afforded the privilege of residing permanently in the United States. His or her status allows authorization for work and entitlement benefits. (See also definitions for *lawful permanent resident alien* and *permanent resident alien.*)

Immigrant Visa: A document issued by a U.S. Consul abroad, which authorizes an alien to apply for admission as an immigrant to the United States.

Immigration and Nationality Act of 1952 (I&NA): Legislation that defined most immigration statuses now in use and formed the basis for U.S. immigration law and policies.

Immigration Reform and Control Act of 1986 (IRCA): Legislation that was passed to deter illegal immigration to the United States, using employer sanctions and status verification, and that allows legalization of specific groups of aliens.

Immigration Status: The legal status conferred on an alien by immigration law.

Immigration Status Verifier (ISV): An INS employee or contractor that performs secondary verification duties at local INS File Control Offices.

Lawful Permanent Resident Alien: An alien who has been lawfully afforded the privilege of residing permanently in the United States. (See also definitions for *immigrant* and *permanent resident alien.*)

Legalization: A program whereby an illegal alien could receive amnesty and adjustment of his or her immigration status to that of a temporary resident. The alien was required to establish proof of entry prior to January 1, 1982, and continuous unlawful residence since that time. This program is covered by section 245(A) (c)(5) of IRCA.

Nationality: The state or country to which a person owes allegiance. Note that the country of birth does not necessarily correspond to the nationality.

Naturalization: The conferring of nationality of a state or country upon a person who has been born under allegiance to another nation.

Nonimmigrant: An alien who seeks temporary entry to the United States for a specific purpose. This category includes foreign government officials, visitors for business and pleasure, and students. Some nonimmigrants have specialized employment privileges (for example, foreign nationals who are employees of the U.S. office of a foreign-owned company).

Nonimmigrant Information System (NIS): INS on-line files that store information on nonimmigrants in the United States, such as foreign visitors, government personnel, and ship and flight crews.

Parolee: An alien who appears to be inadmissible to the inspecting officer but who is allowed to enter the United States either under emergency conditions or under a determination that the alien's entry is determined to be in the public interest. Although parolees are required to leave when the conditions supporting their parole cease to exist, they may sometimes adjust immigration status to asylee. Parolee status is covered by Section 212 of the I&NA.

Passport: Any travel document issued by competent authority showing the bearer's origin, identity, and nationality which is valid for the entry of the bearer into a foreign country.

Permanent Resident Alien: A person who enters the country with an immigrant visa or adjusts his status after entering as a nonimmigrant, refugee, or asylee. Persons with this status are entitled to live and work in the United States and collect entitlement benefits, if qualified. (See also definitions for *immigrant* and *lawful permanent resident.*)

Primary Confirmation: A query to confirm alien documentation using the ASVI data base.

PRUCOL: A person permanently residing in the United States under color of law. This is not a status as defined by the I&NA of 1952, and persons residing under this status are not eligible for SFA funds.

Refugee: Any person who is outside his country of nationality and who is unable or unwilling to return to that country because of persecution or a well-founded fear of persecution. Unlike asylees, refugees apply for and receive this status prior to entry into the United States. This status is covered by Section 207 (formerly Section 203(a)(7)) of the I&NA. (See also definition for *asylee.*)

Refugee Conditional Entrant: An alien who entered the United States or who adjusted his or her status to Lawful Permanent Resident under the seventh preference category of Public Law 89-236, which was enacted in 1965. This status was established by Section 203 (a)(7) of the I&NA, but was abolished by the Refugee Act of 1980 (Public Law 96-212).

Secondary Confirmation: A request to validate alien documentation, using a Form G-845S, after Primary Confirmation has been attempted. Secondary Confirmation is performed by the immigration status verifier, using various automated and manual sources.

Special Agricultural Worker (SAW): This was part of the legalization program in which an alien who had resided in the United States and performed agricultural labor for at least 90 person-days during the one year period prior to May 1, 1986 could apply for temporary lawful resident alien status. The SAW status was limited to the first 350,000 aliens that applied. Although most successful applicants have now been converted to permanent resident status, there are a limited number of pending cases, who may have I-688, I-688a or I-688b status. See the description in the text for the eligibility of these statuses.

Student/Schools System (STSC): INS's on-line file that contains information on foreign students in U.S. academic and vocational educational institutions.

Systematic Alien Verification for Entitlements (SAVE): An automated or manual information sharing program whereby institutions can certify the immigration status of alien applicants for federal student financial aid. (See also *Alien Status Verification Index.*)

Temporary Lawful Resident Alien: An alien granted a one-year period of lawful resident status based on his or her qualifications under the legalization or SAW programs. The temporary status may be removed after one year, when INS rules favorably or unfavorably on granting permanent resident status to the alien.

Undocumented Alien: An alien in the United States without proper documentation. He or she is in violation of U.S. immigration law. (See also definition for *illegal alien.*)

United States: Defined in a geographic sense as the continental United States, Alaska, Hawaii, Puerto Rico, Guam, United States Virgin Islands, and Northern Mariana Islands.

Verification Number: An INS tracking number which is assigned to each noncitizen application if a match is attempted. It is 13 digits in length and can be found in the Financial Aid Administrator section of the SAR, along with the match flags. With one exception, it must be provided when the G-845S is submitted (see text).

INS FIELD OFFICES DIRECTORY

ALASKA

Anchorage
INS: Immigration Status Verifier
Suite 102
620 East 10th Avenue
Anchorage, AK 99513-7581

Phone: 907-271-3110
Fax: 907-271-3112

ARIZONA

Phoenix
INS: Immigration Status Verifier
2035 N. Central Avenue
Phoenix, AZ 85004

Phone: 602-379-3255
Fax: 602-379-4009

CALIFORNIA

Los Angeles
INS: Immigration Status Verifier
300 N. Los Angeles Street
Los Angeles, CA 90012

Phone: 213-894-6285/6286
Fax: 213-894-4277

San Francisco
INS: Immigration Status Verifier
Appraisers Building
630 Sansome Street, Room 300
San Francisco, CA 94111

Phone: 415-705-4206/4585/4586
Fax: 415-705-4466

San Diego
INS: Immigration Status Verifier
880 Front Street
San Diego, CA 92101

Phone: 619-557-6727
Fax: 619-557-6565

Western Service Center
INS: Immigration Status Verifier
24000 Avila Road
P.O. Box 30080
Laguna Niguel, CA 92607

Phone: 714-643-6025
Fax: 714-643-6083

COLORADO

Denver
INS: Immigration Status Verifier
4730 Paris Street
Denver, CO 80239

Phone: 303-371-4415
Fax: 303-361-0617

CONNECTICUT

Hartford
INS: Immigration Status Verifier
450 Main Street
Ribicoff Federal Building
Hartford, CT 06103-3060

Phone: 203-240-3166
Fax: 203-240-3214

FLORIDA

Miami
INS: Immigration Status Verifier
7880 Biscayne Boulevard
Miami, FL 33138

Phone: 305-536-5703/5704/4896
Fax: 305-350-5708

GEORGIA

Atlanta
INS: Immigration Status Verifier
77 Forsyth Street, SW
Atlanta, GA 30303

Phone: 404-331-3251
Fax: 404-331-7931

GUAM

Agana
INS: Immigration Status Verifier
Pacific Daily News Building, Suite 801
238 Archbishop Flores Street
Agana, Guam 96910

Phone: 671-472-7256/7393
Fax: 671-472-7491

HAWAII

Honolulu
INS: Immigration Status Verifier
595 Ala Moana Boulevard
P.O. Box 461
Honolulu, HI 96818

Phone: 808-541-1373
Fax: 808-541-3459

ILLINOIS

Chicago
INS: Immigration Status Verifier
10 W. Jackson Boulevard
Chicago, IL 60604

Phone: 312-886-0909
Fax: 312-353-7260

INDIANA

Indianapolis
INS: Immigration Status Verifier
950 N. Meridian Street
Gateway Plaza, Room 400
Indianapolis, IN 46204

Phone: 313-568-6028/6029/6031
Fax: 313-568-6014

LOUISIANA

New Orleans
INS: Immigration Status Verifier
Postal Service Building
Room T-8005
701 Loyola Avenue
New Orleans, LA 70113

Phone: 504-589-6614/6615
Fax: 504-589-3715

MAINE

Portland
INS: Immigration Status Verifier
739 Warren Avenue
Portland, ME 04103

Phone: 207-780-3443/3266
Fax: 207-780-3481

MARYLAND

Baltimore
INS: Immigration Status Verifier
Equitable Tower 1, 12th Floor
100 South Charles Street
Baltimore, MD 21201

Phone: 410-962-2436/2437
Fax: 410-962-9229

MASSACHUSETTS

Boston
INS: Immigration Status Verifier
JFK Federal Building
Government Center
Boston, MA 02203

Phone: 617-565-3046/3048
Fax: 617-565-4066

MICHIGAN

Detroit
INS: Immigration Status Verifier
Federal Building
333 Mt. Elliott Street
Detroit, MI 48207

Phone: 313-568-6029
Fax: 313-568-6004

MINNESOTA

St. Paul
INS: Immigration Status Verifier
2901 Metro Drive
Suite 100
Bloomington, MN 55425

Phone: 612-335-2235/2236
Fax: 612-335-2262

MISSOURI

Kansas City
INS: Immigration Status Verifier
9747 N. Conant Avenue
Kansas City, MO 64153

Phone: 816-891-0640
Fax: 816-891-7006

St. Louis
INS: Immigration Status Verifier
Robert A. Young Federal Building
1222 Spruce Street
Room 1100
St. Louis, MO 63103-2815

Phone: 314-539-2534/2535
Fax: 314-539-2539

MONTANA

Helena
INS: Immigration Status Verifier
Federal Building
Room 512
301 South Park, Drawer 10036
Helena, MT 59629

Phone: 406-449-5034/5428
Fax: 406-449-5082

NEBRASKA

Lincoln
INS: Immigration Status Verifier
Lincoln Service Center
Federal Building, U.S. Courthouse
Room B26
Lincoln, NE 68508

Phone: 402-437-5769
Fax: 402-437-5475

Omaha

INS: Immigration Status Verifier
3736 S. 132nd Street
Omaha, NE 68144

Phone: 402-697-9302/9305
Fax: 402-697-9064

NEVADA

Las Vegas
INS: Immigration Status Verifier
300 Las Vegas Boulevard S.
Room 104
Las Vegas, NV 89101

Phone: 702-388-6626
Fax: 702-388-6220

Reno
INS: Immigration Status Verifier
1351 Corporate Boulevard
Reno, NV 89502

Phone: 702-784-5186
Fax: 702-784-5899

NEW JERSEY

Newark
INS: Immigration Status Verifier
Federal Building
970 Broad Street
Newark, NJ 07102

Phone: 201-645-4537/4538/4539
Fax: 201-645-2304

NEW YORK

Albany
INS: Immigration Status Verifier
U.S. Post Office & Courthouse
445 Broadway
Room 220
Albany, NY 12207

Phone: 518-472-2416
Fax: 518-472-4531

Buffalo
INS: Immigration Status Verifier
U.S. Courthouse
68 Court Street
Buffalo, NY 14202

Phone: 716-846-5154
Fax: 716-846-4440

New York
INS: Immigration Status Verifier
26 Federal Plaza
New York, NY 10278

Phone: 212-264-5872
Fax: 212-264-2189

NORTH CAROLINA

Charlotte
INS: Immigration Status Verifier
6 Woodlawn Green, Suite 138
Charlotte, NC 28217

Phone: 704-344-6332
Fax: 704-344-6453

OHIO

Cincinnati
INS: Immigration Status Verifier
8525 J.W. Peck Federal Bldg.
550 Main Street
P.O. Box 537
Cincinnati, OH 45202

Phone: 513-684-3597
Fax: 513-684-6791

Cleveland
INS: Immigration Status Verifier
1240 E. 9th Street
Room 1917
Cleveland, OH 44199

Phone: 216-522-2268/2612
Fax: 216-522-7039

OKLAHOMA

Oklahoma City
INS: Immigration Status Verifier
4149 Highline Blvd.
Suite 300
Oklahoma City, OK 73108

Phone: 405-231-5943/5944
Fax: 405-231-4428

OREGON

Portland
INS: Immigration Status Verifier
Federal Office Building
511 Northwest Broadway
Portland, OR 97209

Phone: 503-326-7174/7184
Fax: 503-326-3566

PENNSYLVANIA

Philadelphia
INS: Immigration Status Verifier
1600 Callowhill Street
Philadelphia, PA 19130

Phone: 215-656-7184/7185
Fax: 215-656-7200

Pittsburgh
INS: Immigration Status Verifier
2130 Federal Building
1000 Liberty Avenue
Pittsburgh, PA 15222

Phone: 412-644-4551/4552
Fax: 412-644-6375

PUERTO RICO

San Juan
INS: Immigration Status Verifier
GPO Box 5068
San Juan, PR 00936

Phone: 809-766-5278/5021
Fax: 809-766-5838

RHODE ISLAND

Providence
INS: Immigration Status Verifier
203 Federal Building
U. S. Post Office
Exchange Terrace
Providence, RI 02903

Phone: 401-421-4361

TENNESSEE

Memphis
INS: Immigration Status Verifier
245 Wagner Place
Suite 250
Memphis, TN 38103

Phone: 901-544-3089
Fax: 901-544-4123

TEXAS

Dallas
INS: Immigration Status Verifier
8101 Stemmons Fwy.
Dallas, TX 75247

Phone: 214-655-3073/3080
Fax: 214-655-3015

El Paso
INS: Immigration Status Verifier
700 E. San Antonio
P.O. Box 9398
El Paso, TX 79984

Phone: 915-534-6365/6642/6644
Fax: 915-534-6367

Harlingen
INS: Immigration Status Verifier
2102 Teege Street
Harlingen, TX 78550

Phone: 210-427-8922
Fax: 210-427-7147

Houston
INS: Immigration Status Verifier
509 N. Belt
Houston, TX 77060

Phone: 713-229-2846/2590
Fax: 713-229-2591

San Antonio
INS: Immigration Status Verifier
8940 Fourwinds Dr.
Suite 2020
San Antonio, TX 78239

Phone: 512-871-7037/7038/7039
Fax: 512-871-7078

Service Center
INS: Immigration Status Verifier
P.O. Box 568808
Dallas, TX 75356-8808

Phone: 214-767-7291
Fax: 214-767-7405

UTAH

Salt Lake City
INS: Immigration Status Verifier
5272 S. College Dr.
Suite 100
Salt Lake City, UT 84123

Phone: 801-265-8892

VERMONT

St. Albans
INS: Immigration Status Verifier
Federal Building
P.O. Box 328
St. Albans, VT 05478

Phone: 802-527-3257
Fax: 802-527-3262

Eastern Service Center
INS: Immigration Status Verifier
75 Lower Welden Street
St. Albans, VT 05479-0001

Phone: 802-527-3106
Fax: 802-527-3252

VIRGINIA

Norfolk
INS: Immigration Status Verifier
Norfolk Federal Building
200 Granby Mall, Rm. 439
Norfolk, VA 23510

Phone: 804-441-3103
Fax: 804-441-3533

Washington Processing Center
INS: Immigration Status Verifier
1401 Wilson Boulevard
Arlington, VA 22209

Phone: 703-235-8081
Fax: 703-235-8090

VIRGIN ISLAND

Charlotte Amalie
INS: Immigration Status Verifier
P.O. Box 610
St. Thomas, VI 00801

Phone: 809-774-1390
Fax: 809-774-6491

WASHINGTON

Seattle
INS: Immigration Status Verifier
815 Airport Way South
Seattle, WA 98134

Phone: 206-553-1845/1392

Spokane
INS: Immigration Status Verifier
691 U.S. Courthouse
Spokane, WA 99201

Phone: 509-353-4695/4698
Fax: 509-353-2763

WISCONSIN

Milwaukee
INS: Immigration Status Verifier
Federal Building
Room 186
517 E. Wisconsin Avenue
Milwaukee, WI 53202

Phone: 414-291-3564/3571

Appendix B:

Selective Service Status Information Letters

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000001 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you are an alien who first entered the United States 30 days or less before your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

SAMPLE

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

155

431-35-6054
DMC/CG
E1:LXA1 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000002 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you were released from incarceration 30 days or less before your 26th birthday after having been continuously incarcerated, institutionalized or confined to the home since your 18th birthday.

SAMPLE

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

431-35-6054
DMC/CG
E2:LXA2 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000003 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you began incarceration 30 days or less after your 18th birthday and were incarcerated, institutionalized or confined to the home through your 26th birthday.

You should submit this letter to the agency concerned about your registration status with Selective Service.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
E3:LXA3 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000004 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous active duty military status from your 18th birthday through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

CANCEL

431-35-6054
DMC/CG
E4:LXA4 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000005 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you have provided proof of continuous incarceration, institutionalization or confinement to the home from your 18th birthday through your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

SAMPLE

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

159

431-35-6054
DMC/CG
E5:LXA5 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000006 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

SAMPLE

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States for the first time after your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

431-35-6054
DMC/CG
E6:LXA6 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000007 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your inquiry as to whether you are required to register with Selective Service.

Based upon our records and the information you provided, you were not required to register with Selective Service because you entered the United States on a valid visa as a lawful non-immigrant before the age of 26, and remained in that status until your 26th birthday.

You should submit this letter to any agency concerned about your registration status with Selective Service.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

431-35-6054
DMC/CG
E7:LXA7 J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000009 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to registration with the Selective Service System as required by the Military Selective Service Act.

The denial of any right, benefit, or privilege which is conditional on registration with the Selective Service System after July 20, 1980, is not applicable to a man born before January 1, 1960.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

CANCELLED

431-35-6054
DMC/CG
NR:LXAD J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000008 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

Although you stated in your letter you completed and submitted a registration form previously, we cannot determine why we did not receive it. You are not registered, and the law does not allow registration after age 26.

Any explanation must be made to the agency administering the right, benefit, or privilege you seek. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

John L Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
RR:LXAC J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000010 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System as required by the Military Selective Service Act.

A search of our files reveals that you are not registered. You were required to register with the Selective Service within 30 days after your discharge from military service if you had not reached age 26 at that time. If you entered the military after reaching age 18, you should have already registered within 30 days of your 18th birthday. Registration after reaching age 26 is prohibited by law.

If you are being denied a right, benefit, or privilege because you have not registered with the Selective Service System and have served in the armed forces on active duty or in the Reserves or National Guard or enrolled in a Delayed Entry Program (DEP), evidence of your military service may serve to show that your failure to register was not intentional. The agency administering the right, benefit, or privilege you seek will make the final decision regarding your eligibility. You should submit this letter, along with any evidence of your military service, to that agency for its consideration.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

SAMPLE

431-35-6054
DMC/CG
NM:LXAF J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000015 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have your letter regarding your Selective Service registration status. You are not registered.

Our records indicate that we sent one or more letters reminding you of the requirement to register and urging you to do so. The Selective Service System has no authority to waive the requirement of the law. We can only state what our records indicate.

Any explanation to justify your failure to register must be made to the agency administering the right, benefit, or privilege you seek for which Selective Service System registration is required. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to them for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

431-35-6054
DMC/CG
RL:LXDA J R 01/95

SELECTIVE SERVICE SYSTEM
P.O. BOX 94638
PALATINE, IL 60094-4638

SELECTIVE SERVICE SYSTEM

SIL 50110-000016 January 10, 1995

LINDSAY CALVIN JOHNSON
RT 1 FALL BRANCH RD
BLOUNTVILLE, TN 37617

Dear Mr. JOHNSON,

We have received your letter concerning your eligibility for a right, benefit, or privilege which is subject to your registration with the Selective Service System. A search of our files, and an examination of the information you provided reveal that you were required to register with Selective Service, but have not registered.

Any explanation to justify your failure to register must be made to the agency administering the right, benefit, or privilege you seek. The final decision regarding your eligibility is within the authority of that agency. Therefore, you should submit this letter to that agency for consideration along with a copy of any documentation you believe may be helpful to your case.

Sincerely,

John L. Westart

JOHN L. WESTART
Operations Manager

166

431-35-6054
DMC/CG
RD:LXDB J R 01/95

Appendix C:

Comments for Matches and Hold Files

1995-96 SAR COMMENT ACTIVITY FOR MATCHES AND HOLD FILES

C = A code of "C" (as an additional flag that institutional resolution is required) will be printed on the SAR next to the EFC if any of these conditions are met.

NOTE: Some of these conditions (as indicated) will generate a rejected record. An EFC does not print on rejected records. Therefore, although resolution is required, a "C" code will not be printed on the SAR.

	Match Flag Value	Comment Number	Reason for Comment	Institution Action
Selective Service Match				
	Y	29	Match conducted and applicant's registration confirmed by Selective Service	No Resolution Required
	T	26	Match conducted. Applicant is temporarily exempt because he is not yet 18 years old.	No Resolution Required
C	N	30	Match conducted and applicant not in Selective Service data base	Resolution Required
C	L or Z	32	Selective Service did not conduct a match	Resolution Required
Selective Service Registration				
	Y	31	Forwarded name to Selective Service for registration as requested on application or SAR	No Resolution Required
	T	28	Forwarded name to Selective Service for registration as requested on application or SAR. Registration will be processed by Selective Service 30 days prior to applicant's 18th birthday.	No Resolution Required
C	blank *	33	Applicant requested that ED send name to Selective Service for registration, but either is not within age range or some information needed to register him is missing	Resolution Required
C	blank*, L or Z	37	Selective Service did not conduct the registration requested	Resolution Required
INS Match and Other Citizenship Edits				
	blank *	68	Applicant did not indicate citizenship status	Resolution Required (REJECT 17)
C	blank *	141	Applicant changed from eligible non-citizen to citizen	Resolution Required
C	blank *	142	Not enough information to conduct match	Resolution Required

* A match flag value is not generated for cases that were not/could not be sent to the matching agency.

	Match Flag Value	Comment Number	Reason for Comment	Institution Action
INS Match and Other Citizenship Edits (continued)				
	Y	143	Match conducted and applicant's non-citizen eligibility confirmed by INS	No Resolution Required
C	N	144	Match conducted and INS did not confirm applicant's non-citizen eligibility	Resolution Required
C	L or Z	145	INS was unable to conduct match	Resolution Required
Social Security Number Match				
	4	13	Applicant tried to change SSN after verified as correct	No Resolution Required
C	0 or 9	58	SSA did not conduct match. Applicant's SSN passed ED's SSN valid range check	Resolution Required
	8	59	No last name provided	Resolution Required (REJECT N) or (REJECT 13 if both first and last name are missing)
	0, 8 or 9	23	SSA did not conduct match. Applicant's SSN failed ED's SSN valid range check	Resolution Required (REJECT P)
	1	24	No match on SSN	Resolution Required (REJECT S)
C	2	60	Date of Birth inconsistent with SSA records	Resolution Required
C	3	61	No match on name	Resolution Required
	4	no comment	Successful match	No Resolution Required
C	1	25	Applicant verifies that SSN on Reject S record is correct	Resolution Required
NSLDS Match				
C	0, 8 or 9	131	Unable to conduct default match	Resolution Required
C	2	132	Applicant in default	Resolution Required
C	3	133	Applicant owes a grant overpayment	Resolution Required
C	4	134	Applicant has at least one loan in default and owes at least one grant overpayment	Resolution Required
C	5	135	Eligible for some but not all Title IV aid	Resolution Required
	1	no comment	Not in default or overpayment or not in the NSLDS data file	No Resolution Required

	Match Flag Value	Comment Number	Reason for Comment	Institution Action
NSLDS Match (continued)				
C	If GA loan, comment 124 and up to three	124	Applicant must contact Guarantee Agency(ies)	Resolution Required
C	of comments 181-235 will be present with comments 132-135	181-235	Guarantee Agency's Name and Phone Number	Resolution Required
C	If ED loan, one of comments 121-123 will be present with	121	Atlanta Regional Office address and phone number	Resolution Required
C	comments 132-135	122	Chicago Regional Office address and phone number	Resolution Required
C		123	San Francisco Regional Office address and phone number	Resolution Required
Selective Service Hold				
C	n/a ***	14	Applicant is on the Selective Service hold file	Resolution Required
Drug Abuse Hold				
C	n/a ***	55	Applicant has been released from the Drug Abuse hold file	Resolution Required
	n/a ***	9,56	Applicant is on the Drug Abuse hold file	No Resolution Required (REJECT 19. May be resolved only by ED.)
Overpayment Hold				
	n/a ***	11	Applicant has been released from the Overpayment hold file	No Resolution Required
	n/a ***	12	Applicant is on the Overpayment Hold file	No Resolution Required (REJECT 19. May be resolved only by ED.)
Verification Hold and Selection Edits				
	n/a ***	7	Applicant has been released from the Verification hold file	No Resolution Required
	n/a ***	8, 18	Applicant is on the Verification hold file	No Resolution Required (REJECT 19. May be resolved only by ED.)
	n/a ***	136,137,161 170,171	Applicant was selected for Verification	Resolution Required

*** Match flag values are not associated with hold files. Hold files are maintained at the CPS and not at an outside matching agency.

NOTE: Records selected for verification will have an asterisk (*) printed next to the EFC rather than a "C".

1995-96 SAR COMMENT TEXT FOR MATCHES AND HOLD FILES

SELECTIVE SERVICE MATCH

029 Your registration or your exemption status has been confirmed by Selective Service.

026 Selective Service records indicate that you are not required to be registered with them until within 30 days of your 18th birthday. If you have not yet initiated the registration process, you may either check the "Yes" box for item 103 on Part 2 of your SAR or obtain and complete a Selective Service Registration form, available at your local post office. If you have already requested that you be registered, they will process your request 30 days prior to your 18th birthday.

030 The Selective Service reported that you have not registered with them. If you are female or born before 1960, disregard this comment. Otherwise, a male who is required to register with Selective Service must be registered before aid can be disbursed. If you have not yet registered, are male and 18 through 25 years of age, you must either check the "Yes" box for Item 103 on Part 2 of your SAR or obtain and complete a Selective Service Registration form, available at your local post office. If you believe you have already registered or are exempt, please contact the Selective Service at 708-688-6888 to resolve any problems regarding your registration status.

032 Because of processing problems we were unable to conduct a match to verify your registration status with Selective Service. If you are female or born before 1960, disregard this comment. Otherwise, a male who is required to register with Selective Service must verify he is registered before aid can be disbursed. If you are registered, you will receive a letter of confirmation from the Selective Service within two weeks. If you are not registered, are male and 18 through 25 years of age, you must either check the "Yes" box for Item 103 on Part 2 of your SAR or obtain and complete a Selective Service Registration form, available at your local post office. If you believe you are registered and do not receive a letter of confirmation, or are exempt, contact Selective Service at 708-688-6888.

SELECTIVE SERVICE REGISTRATION

031 We have forwarded your name to Selective Service for registration, as you requested.

028 We have forwarded your name to Selective Service for registration, as you requested. They will process your registration request 30 days prior to your 18th birthday.

033 We could not send your name to Selective Service as you requested because you did not give us enough information or because you are past the age limit for registration. If you are at least 18 but not yet 26, you may register by checking the "Yes" box for Item 103 on your SAR. You must also correct the information printed in boldface type on Part 2. You may also register by obtaining and completing a Selective Service Registration form, available at your local post office. If you are a male who has reached age 26, you cannot use this SAR to register. You must contact Selective Service at 708-688-6888 to resolve your registration status before you can receive Federal student aid. You are exempt from registering if born before 1960.

037 We were unable to complete your registration with Selective Service. If you wish to register and you have not yet reached age 26, you must either check the "Yes" box for Item 103 on your SAR, or complete a Selective Service Registration form, available at your local post office.

INS MATCH

068 You did not indicate on your application that you are a U.S. citizen or an eligible noncitizen. To be eligible to receive Federal student aid, a student must be --

(1) A U.S. citizen (or U.S. National), or
(2) An eligible noncitizen, such as a U.S. permanent resident or resident of certain Pacific Islands, or
(3) An eligible noncitizen as determined by the Department of Education

141 You must submit proof of your citizenship status to your FAA before you can receive any Federal student aid.

142 The Immigration and Naturalization Service (INS) could not confirm your statement that you are an eligible noncitizen because there is a question about your alien registration number. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

143 Your citizenship status has been confirmed by the Immigration and Naturalization Service (INS) and you meet the citizenship requirements for Federal student aid.

144 The Immigration and Naturalization Service (INS) did not confirm your statement that you are an eligible noncitizen. You must submit proof of your noncitizen eligibility to your school within 30 days after you give this SAR to your school. If you fail to submit proof within 30 days, you may be found ineligible for Federal student aid.

145 Because of processing problems, the Immigration and Naturalization Service (INS) was not able to confirm your statement that you are an eligible noncitizen. You must submit proof of your eligible noncitizen status to your school before you may receive Federal student aid.

SOCIAL SECURITY NUMBER MATCH

013 You tried to change your social security number. The Social Security Administration already verified that this social security number belongs to you. If you need assistance, see your FAA.

058 Because of processing problems, we were unable to determine from the Social Security Administration if the social security number you reported on your application belongs to you. To receive Federal student aid, you must provide current proof to your FAA that the social security number in Item 8 is yours.

059 We were unable to determine from the Social Security Administration if the social security number you reported on your application belongs to you because you did not give us your last name or date of birth. Correct Items 1 and 9 on your SAR.

023 It appears that the social security number you reported on your application is not a valid social security number. See your FAA for assistance.

024 The Social Security Administration did not confirm that the social security number you reported on your aid application is valid. You must verify or correct your social security number in Item 8 on your SAR.

060 The date of birth you reported on your application is inconsistent with the Social Security Administration's records.

061 According to the Social Security Administration's records, the name you reported on your application does not correspond with the social security number in Item 8. You must review Items 1, 2, 3, and 8 and make corrections on your SAR where appropriate. If these items are correct, you should contact your local Social Security Administration office to resolve the problem.

025 You verified that the social security number in Item 8 is correct. However, before you can receive Federal student aid, you must submit current proof to your FAA that this information is correct.

NSLDS MATCH

131 To receive Federal student aid, you cannot be in default on any U.S. Department of Education student loan. Because of processing problems we were unable to determine whether you are in default on a loan. Contact your FAA for more information.

132 Our records indicate that you are in DEFAULT on a Federal student loan. You are not eligible to receive any Federal student aid until your account has been resolved.

133 Our records indicate that you received at least one overpayment of a Federal Pell Grant. You are required by law to repay any funds received from the Federal Pell Grant program to which you were not entitled. Until your overpayment has been repaid in full, you are ineligible to receive any Federal student assistance. Contact the U.S. Department of Education at 202-708-4766 to resolve your account.

134 Our records indicate that you are in DEFAULT on at least one Federal student loan and that you received at least one overpayment of a Federal Pell Grant. You are not eligible to receive any Federal student aid until your account has been resolved.

135 Our records indicate that you may not be eligible for some Federal student aid because of the status of your Federal student loan. Contact your FAA to determine what types of student aid you may be eligible to receive.

124 Contact the following agency(ies) regarding your defaulted Federal student loan:

181 Alabama Guaranteed Student Loan Program, Collections, 1-800-451-5715 or 205-281-1921

182 United Student Aid Funds, Alaska Claims Assistance, 1-800-331-2314

183 United Student Aid Funds, Arizona Claims Assistance, 1-800-331-2314

184 Student Loan Foundation of Arkansas, Collections, 1-800-622-3446 or 501-372-1491

185 California Student Aid Commission, 1-800-367-1589
186 Colorado Guaranteed Student Loan Program, 303-294-5050
187 Connecticut Student Loan Foundation, Collections, 1-800-345-6055 or 203-257-4001
188 United Student Aid Funds, Delaware Claims Assistance, 1-800-331-2314
189 American Student Assistance, Collections, 1-800-999-9080 or 617-426-9434
190 Florida Department of Educ., Defaulted Borrowers Assist., 1-800-366-3475
191 Georgia Student Finance Commission, Collections, 1-800-776-6878 or 404-414-3057
192 United Student Aid Funds, Hawaii Claims Assistance, 1-800-331-2314
193 Student Loan Fund of Idaho, Inc., 1-800-528-9447
194 Illinois Student Assist. Comm., Claims and Collections, 1-800-934-3572
195 United Student Aid Funds, Indiana Claims Assistance, 1-800-331-2314
196 Iowa College Aid Commission, Claims Department, 1-800-383-4222 or 515-281-7513
197 United Student Aid Funds, Post Claims Assistance, 1-800-331-2314
198 Kentucky Higher Education Assistance Authority, Collections Office, 1-800-928-4241
199 Louisiana Office of Student Financial Assistance, 1-800-256-6882
200 United Student Aid Funds, Maine Claims Assistance, 1-800-331-2314
201 United Student Aid Funds, Maryland Claims Assistance, 1-800-331-2314
202 American Student Assistance, Collections, 1-800-999-9080 or 617-426-9434
203 Michigan Higher Educ. Assist. Authority, Collections, 1-800-642-5626 or 517-373-0760
204 Minnesota Northstar Guarantee, Inc., 1-800-925-0707
205 Mississippi Default Collection Services, USA Services, 1-800-824-7044
206 Missouri Default Collection Services, BTI Services, 1-800-824-4893, Ext. 1
207 Montana Guaranteed Student Loan Program, Claims Management, 1-800-322-3086
208 Nebraska Student Loan Program, Collection Office, 1-800-735-8778, Ext. 6380
209 United Student Aid Funds, Nevada Claims Assistance, 1-800-331-2314
210 New Hampshire Higher Education Assistance Foundation, Claims Section, 1-800-525-2577
211 New Jersey Higher Education Assistance Authority, 1-800-356-5562 or 609-588-3262
212 New Mexico Educational Assistance Foundation, 1-800-279-5063 or 505-345-3371
213 New York State Higher Education Services, Office of Default, 1-800-666-0991 or 518-473-1632
214 North Carolina State Education Assistance Authority, Collections, 1-800-544-1644
215 North Dakota Post Claims Collections, 1-800-472-2166, Ext. 5707
216 Ohio Student Aid Commission, 1-800-762-3862
217 Oklahoma Guaranteed Student Loan Program, Collection Office, 1-800-522-8022
218 Oregon State Scholarship Commission, Collection Office, 1-800-457-0135
219 Pennsylvania Higher Education Assistance Agency, 1-800-233-0751 or 717-257-2850
220 Great Lakes Higher Education Corporation, 1-800-236-3100

221 Rhode Island Higher Education Assistance Authority, 1-800-922-9855 or 401-736-1100.

222 South Carolina State Education Assistance Authority, Collections, 1-800-347-2752

223 Education Assistance Corporation, 1-800-874-8982

224 Tennessee Default Collection Services, BTI Services, 1-800-257-6528, Ext. 1

225 Texas Guaranteed Student Loan Corp., Collections, 1-800-222-6297 or 317-849-6510

226 United Student Aid Funds, Post Claims Assistance, 1-800-331-2314

227 Utah Higher Education Assistance Agency, 801-321-7200 (Ask for Collections)

228 Vermont Student Assistance Corp., 1-800-642-3177 (in Vermont) or 802-655-9602, Ext. 216 (outside)

229 United Student Aid Funds, Virgin Islands Claims Assistance, 1-800-331-2314

230 Virginia Student Assistance Authority, Default Collections, 1-800-544-4904

231 Northwest Education Loan Association, Collection Office, 1-800-552-0686

232 Pennsylvania Higher Education Assistance Agency, 1-800-233-0751 or 717-257-2850

233 Great Lakes Higher Education Corporation, 1-800-236-3100

234 United Student Aid Funds, Post Claims Assistance, 1-800-331-2314

235 Transitional Guaranty Agency, 612-221-0566

121 To resolve your defaulted Federal student loan, call the U.S. Department of Education at 1-800-282-1050 (Georgia residents) or 1-800-241-4710 (non-residents), or write to the U.S. Department of Education, P.O. Box 2287, Atlanta, Georgia 30370-2287.

122 To resolve your defaulted Federal student loan, call the U.S. Department of Education at 1-800-972-3189 (Illinois residents) or 1-800-621-3115 (non-residents), or write to the U.S. Department of Education, P.O. Box 8422, Chicago, Illinois 60680-8422.

123 To resolve your defaulted Federal student loan, call the U.S. Department of Education at 1-800-652-1780 (California residents) or 1-800-227-3237 (non-residents), or write to the U.S. Department of Education, 50 United Nations Plaza, Room 250, San Francisco, California 94102.

SELECTIVE SERVICE HOLD

014 Records indicate that you received Federal student aid in a prior school year, but may not have registered with Selective Service as required. Your Selective Service registration status must be confirmed before you can receive any additional aid. If you believe you are already registered, are exempt from registration, or are not required to register, contact Selective Service at 708-688-6888. Otherwise, if you have not yet reached age 26, you should register at your local post office.

DRUG ABUSE HOLD

055 Your denial of benefits under the Anti-Drug Abuse Act of 1988 has been resolved and processing of your student aid application may continue. However, you must submit documentation to your FAA from the Department of Education's Drug Enforcement and Compliance Monitoring Office that shows what aid you may be eligible to receive.

056 Your application cannot be processed because our records indicate that you are currently being denied aid from one or more Title IV Federal assistance programs by court order under terms of the Anti-Drug Abuse Act of 1988. If you wish to contest this finding, contact the Specialist for Drug Enforcement and Compliance Monitoring, U.S. Department of Education, 202-708-5129, within 30 days after the date you submit this SAR to your school.

OVERPAYMENT HOLD

011 This Student Aid Report (SAR) has been produced because your overpayment issue has been resolved.

012 Your application cannot be processed because our records indicate that you received an overpayment of a Federal Pell Grant award in a prior school year. You are required by law to repay any funds received from the Federal Pell Grant Program to which you were not entitled. Until your overpayment has been paid in full, you are not eligible to receive Federal Student Aid. If you have any questions concerning the status of your account, Carolyn Craddock at 202-708-7821 between 9 AM and 5 PM EST, or submit questions to: U.S. Department of Education, Student Financial Assistance Programs, Pell Grant Financial Management Division, Disbursement Branch, P.O. Box 23781, Washington, D.C. 20026-0781. Include with your letter a copy of your SAR and your current address and telephone number (including area code).

VERIFICATION HOLD

007 This Student Aid Report (SAR) has been produced because your verification issue has been resolved.

008 Your application cannot be processed until you have given us additional information. You must contact the U.S. Department of Education by calling 202-708-4777, or by writing to: U.S. Department of Education, Student Financial Assistance Programs, Analysis and Forecasting Division, Grants Analysis Branch, 400 Maryland Avenue, SW, ROB-3, Room 4613, Washington, DC 20202-5451. Include with your letter a copy of your SAR and your current address and telephone number (including the area code).

018 Your application cannot be processed until you have resolved a prior year verification overpayment. Contact the U.S. Department of Education by calling 202-708-4777, or by writing to: U.S. Department of Education, Student Financial Assistance Programs, Analysis and Forecasting Division, Grants Analysis Branch, 400 Maryland Ave., SW, ROB-3, Room 4613, Washington, DC 20202-5451. Include with your letter a copy of this SAR and your current address and telephone number (including the area code).

136 Your application has been selected for review in a process called verification. Complete the enclosed verification worksheet and submit it to your FAA. You must also submit signed copies of certain 1994 financial documents for you and your parents. Contact your FAA to find out which documents are required.

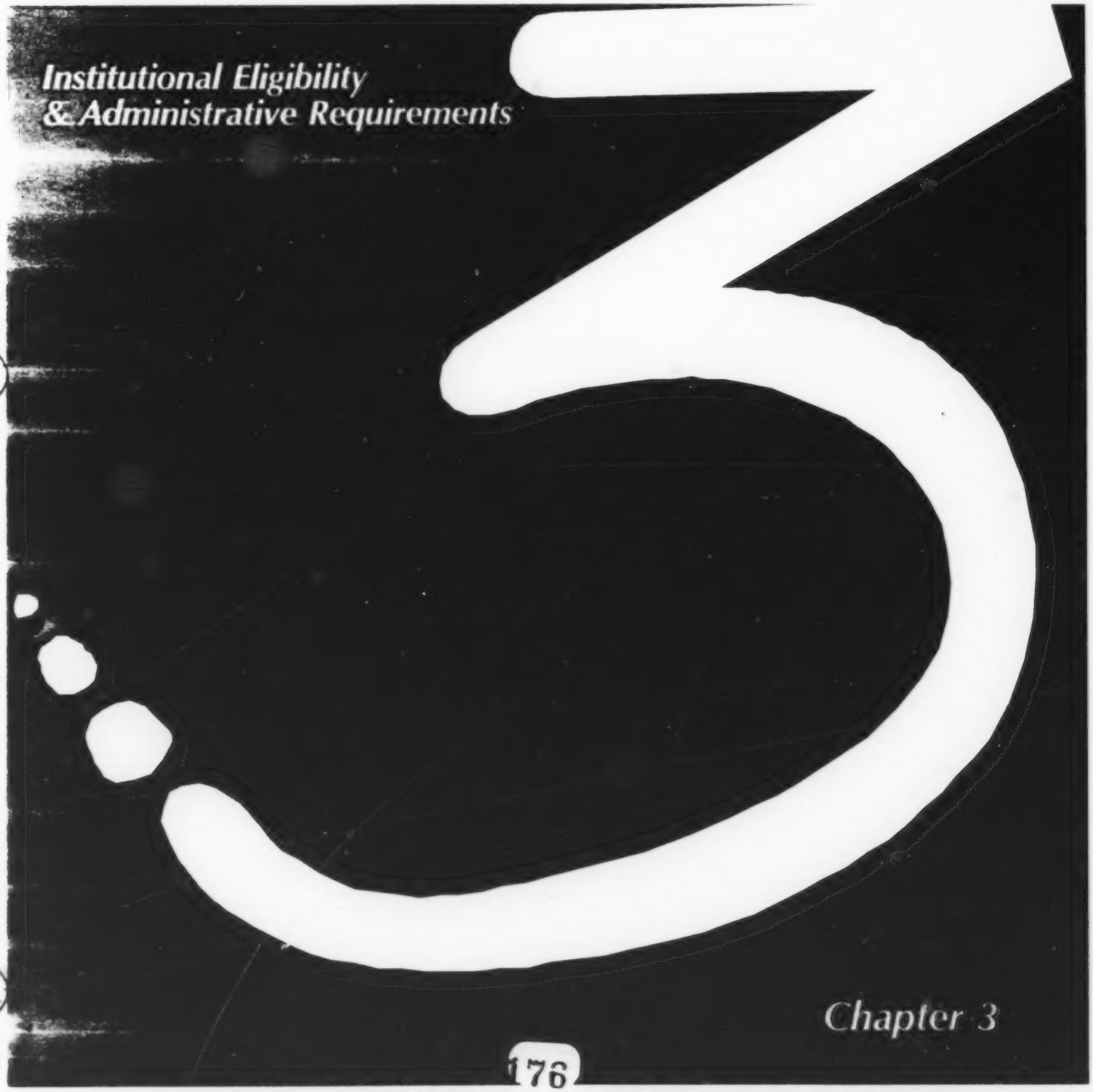
137 Your application has been selected for review in a process called verification. Complete the enclosed verification worksheet and submit it to your FAA. You must also submit signed copies of certain 1994 financial documents for you (and your spouse). Contact your FAA to find out which documents are required.

161 Your application has been selected for review in a process called verification. You must submit this SAR immediately to your FAA to find out if you need to provide certain 1994 financial documents.

170 Your application has been selected for review in a process called verification. You must submit to your school signed copies of certain 1994 financial documents for you and your parents. Contact your FAA to find out which documents are required.

171 Your application has been selected for review in a process called verification. You must submit to your school signed copies of certain 1994 financial documents for you (and your spouse). Contact your FAA to find out which documents are required.

The Federal Student Financial Aid Handbook 1995-96



U.S. Department of Education • Student Financial Assistance Programs

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INTRODUCTION

The purpose of this Chapter of the *Federal Student Financial Aid Handbook* is to describe how a school becomes eligible to participate in the SFA programs, and to explain the administrative and fiscal requirements of SFA program participation. In addition, this Chapter discusses refund calculations, satisfactory academic progress, proper documentation and recordkeeping, and other issues relevant to the general administration of the SFA programs.

Section One explains the statutory definitions for eligible institutions, as well as program eligibility requirements. Even if your school already participates in the SFA programs, you may still want to review this section briefly to make sure that all programs at your school are eligible. **Section Two** gives an overview of the general administrative and fiscal requirements for SFA program participation, including the effect of default rates on a school's administrative capability. **Section Three** discusses cash management requirements. **Sections Four and Five** explain two particular administrative requirements in detail: the use of financial aid transcripts for transfer students, and refund and repayment calculations for students who withdraw from the school. **Section Six** discusses the use of agreements between schools to pay students who are taking courses in an eligible program at more than one school. Audits, program reviews, and quality control are discussed in **Section Seven. Section Eight** discusses recordkeeping requirements. The student consumer information requirements are explained in **Section Nine**. **Section Ten** explains how to apply for SFA participation, the consequences and procedures of changing ownership, how to report changes in a school's location or to its educational programs, and the consequences of loss of eligibility and corrective actions taken by the Department.

RECENT CHANGES

REGULATIONS

Final regulations amending the General Provisions and Institutional Eligibility regulations were published in the **Federal Register** on November 29, 1994 and December 1, 1994.

Final regulations implementing the provision of the Family Educational Rights and Privacy Act (FERPA) regarding disclosure of school records for enforcement actions were published on January 17, 1995.

A Notice of Proposed Rulemaking (NPRM) proposing changes to the debarment and suspension regulations was published on December 20, 1994.

DEAR COLLEAGUE LETTERS

Dear Colleague Letter GEN-95-12, published February 1995, informs schools of reporting requirements for ownership or control by, contracts with or gifts from, foreign sources.

Dear Colleague Letter GEN-95-13 , published February 1995, informs schools how to report third party servicer information.

Dear Colleague Letter GEN-95-22, published April 1995, provides updated guidance on the calculation of refunds and repayments.

A Dear Colleague Letter that provides guidance on the implementation of the 85 Percent Rule is scheduled for publication in the Spring.

Major changes include:

Section 1

Schools must report ownership or control by, contracts with or gifts from, foreign sources.

The definitions of a *week of instruction* and a *week of instructional time* that are integral to the definitions of an *eligible program* and an *academic year* have been changed.

The provisions that permit a school to ask for a reduction in the length of an academic year have been changed to provide a way for a school to obtain a reduction, even if the school has not properly awarded or disbursed SFA funds in the past.

A school that offers an ESL-only program is no longer required to assess each student at the end of the program to substantiate that the student is adequately proficient in English.

A school that offers undergraduate programs that lead to an *equivalent degree* may, under certain circumstances, be exempt from the clock-hour/credit hour conversion formula. As a result of a change in the law, as of July 1, 1994, a hospital-based diploma nursing program is exempt from the clock-hour/credit hour conversion regulations for the calculation of SFA awards.

Section 2

The cash-reserve fund requirement is now performance based. A school does not need to maintain a separate cash reserve fund if the school demonstrates financial responsibility and timely payment of refunds.

The Department has listed the items that it will consider in determining whether a State tuition recovery fund is acceptable.

Only new schools must meet the 33% withdrawal rate provision.

The Department has published an NPRM that proposes changes to the debarment and suspension requirements.

The definition of a *third-party servicer* has been modified to exclude employees and occasional temporary hires of a school.

Schools must report third-party servicer information.

Section 3

The Department has developed new cash management procedures for SFA funds.

Section 5

An approved leave of absence is no longer considered to be a withdrawal for refund and repayment purposes (and for loan status purposes.)

The Appendix A refund policy has been replaced with the Federal refund policy.

A change to the definition of a *minimum period of enrollment for which a student has been charged* allows some schools to use shorter periods for calculating unpaid charges for refund purposes.

A school does not have to return a refund of $25 or less, provided the school obtains the student's permission.

An administrative fee does not have to be a separately identifiable charge.

Section 7

The annual compliance audit report is due within six months after the end of the institution's most recently concluded fiscal year, and must cover the award year that ends on or during that fiscal year.

Section 9

Records of a school's disciplinary actions or proceedings against a student are not available to the public without the consent of the student or the student's parent (if applicable).

Section 10

A school that adds a location that offers 100% of a program is no longer automatically required to apply for recertification.

LITIGATION

As this goes to print, the following areas are affected by litigation:

Clock-hour/credit hour conversion regulations - See pg 3-29

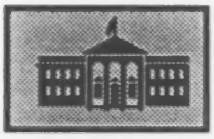
The treatment of unpaid charges in the calculation of State refunds - See pg 3-78

SECTION ONE: INSTITUTIONAL AND PROGRAM ELIGIBILITY

This section will discuss the three types of institutions that are eligible to participate in the SFA programs, and the effect of program eligibility requirements on institutional eligibility . You cannot assume that every program at an eligible institution is an eligible program, or that every eligible program at the school must have the same minimum program length or admissions standards.

If your school is applying for approval to participate for the first time, please refer to Section Ten of this Chapter. Section Ten also discusses other changes in participation, loss of eligibility, and ownership changes.

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS



Previously, the Institutional Eligibility regulations (34 CFR Part 600) defined four types of eligible institutions; however, the Higher Education Amendments of 1992 made several changes regarding institutional participation, including eliminating one of the four types of eligible institutions. The definition of *Vocational School* was removed and such schools can no longer participate in the SFA programs, unless they qualify under one of the remaining definitions. (Refer to the chart on pg. 3-6.) Under the remaining three definitions, schools are eligible to participate in **all** the SFA programs, provided they offer the appropriate type of eligible program. This section covers the key elements of the three definitions, with special attention to those requirements that affect the definition of an eligible program.

Although the participation criteria defined for each of the three types of institutions differ somewhat, these eligible school definitions are not mutually exclusive. That is, a school can meet the definition of more than one type of institution.

School may meet more than one definition

ELIGIBLE SCHOOL DEFINITIONS

Institution of Higher Education	Proprietary Institution of Higher Education	Postsecondary Vocational Institution

ELIGIBLE FOR ALL SFA PROGRAMS

Control: A public or private nonprofit educational institution located in a State.*	***Control:*** A private, for-profit educational institution located in a State.*	***Control:*** A public or private nonprofit educational institution located in a State.*

Legal authorization: Is legally authorized, by the State where it offers postsecondary education, to provide a postsecondary educational program.

Accreditation: Is accredited by a nationally recognized accrediting agency, or has met the alternative requirements.

Admissions: Admits as regular students only persons with a high school diploma or its recognized equivalent, or persons beyond the age of compulsory attendance in the State where the institution is located.

Program offered:
Provides (1) an associate, baccalaureate, graduate, or professional degree, or (2) at least a two-year program that is acceptable for full credit toward a bachelor's degree, or (3) at least a one-year educational program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

Program offered: Must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.
(1) Provides at least a 15-week undergraduate program of 600 clock hours, 16 semester hours, or 24 quarter hours. **May** admit students **without** an associate degree or equivalent.
(2) Provides at least a 10-week program of 300 clock hours, 8 semester hours, or 12 quarter hours. Must be a graduate/professional program, or **must** admit only students with an associate degree or equivalent.
(3) *Short-term Program.* Provides at least a 10-week undergraduate program of 300-599 clock hours. **Must** admit at least some students who do **not** have an associate degree or equivalent, and must meet specific qualitative standards (see pg. 3-23). **Note:** These programs are eligible **only** for FFEL and Direct Loan participation.

Two-year Rule: Has been legally authorized to give (and has been giving) postsecondary instruction for at least two consecutive years.

See pgs. 3-11 and 3-22 for other details on Institutional and Program Eligibility...

*See the definition of "State" on the facing page.

CONTROL AND LEGAL AUTHORIZATION

Public/ private, nonprofit/ for-profit

The "control" of an institution distinguishes whether the school is public or private, nonprofit or for-profit. Under the institutional definitions, an *Institution of Higher Education* or a *Postsecondary Vocational Institution* can be either public or private, but is always nonprofit. A *Proprietary Institution of Higher Education* is always a private, for-profit institution.

A nonprofit institution —

1. is owned and operated by one or more nonprofit corporation or association whose net earnings does not benefit any private shareholder or individual,
2. is legally authorized to operate as a nonprofit organization by each State in which it is physically located, and
3. is determined by IRS to be eligible for tax-deductible contributions.

School's main campus must be located "in a State"

With the exception of certain foreign schools that are eligible only under the Federal Family Education Loan (FFEL) programs, an eligible institution under any of the three definitions must be located in a State. The definition of a "State" includes not only the 50 States of the Union, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the Virgin Islands, and the Northern Mariana Islands. (For the purposes of the Federal Pell Grant [Pell Grant], FSEOG, and FWS programs, a "State" also includes the Federated States of Micronesia, the Marshall Islands, and Palau.) **Generally, the determining factor is the physical location of the main campus or place of instruction.** For instance, if a school's main campus is in a State, as defined above, the school can still have an additional location in a foreign country. (For more information on additional locations and branch campuses, see Section Ten of this Chapter.) However, a correspondence school is considered to be located in the State where its administrative office is located.

Authorization by a State

To qualify under any of the three institutional definitions, a school must be legally authorized by the State in which it offers an educational program to provide the program. The State's legal authorization may be provided by the licensing board or educational agency. In some cases, the institution's charter is its legal authorization. In other cases, a school is considered to be legally authorized if State law does not require it to have a license or other formal approval.

ACCREDITATION

Generally, an institution must be accredited by a nationally recognized accrediting agency to be eligible. (See alternatives listed below.) The Department has published regulations governing the procedures and criteria for recognizing accrediting agencies. For more information, see the Accreditation regulations (Section 602), published in the April 29, 1994 **Federal Register**. The Department periodically publishes a list of recognized accrediting bodies in the **Federal Register**, based on criteria given in CFR Part 602. Copies of this list are also available from:

U.S. Department of Education
Accrediting and State Liaison Division
600 Independence Ave., S.W., Room 3915 (ROB-3)
Washington, D.C. 20202-5244

Previously, the law provided three statutory alternatives to accreditation; **now there are only two.** First, an institution may be pre-accredited by an agency or association that has been approved by the Secretary to grant such pre-accreditation. Secondly, unaccredited postsecondary vocational institutions may be eligible for SFA funds if approved by a State agency that the Secretary determines to be a reliable authority. Schools wishing to apply under these procedures should contact the Institutional Participation Division (IPD) at (202)401-6485 for further information.

Nationally Recognized Accrediting Agency or Association — An accrediting agency or association which the Secretary of Education has recognized to accredit or pre-accredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Pre-accredited — A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time. The pre-accredited status must be recognized by the Department.

Changes in accreditation may affect eligibility

If a school loses its accreditation, it is ineligible to participate in the SFA programs and must notify the Department within 30 days.* However, if your accrediting agency loses its Departmental approval, you have up to 18 months in which to obtain accreditation from another approved agency. Other changes in accreditation may also jeopardize institutional participation. If a school changes accrediting agencies, it may be subject to termination unless the school submits to the Department all materials

*An accredited or pre-accredited school must agree to submit, for any dispute involving the termination of accreditation, to binding arbitration before initiating any other legal action.

relating to the prior accreditation, including materials demonstrating reasonable cause for changing accrediting agencies. If a school is accredited by two agencies at the same time, the school must designate which agency's accreditation will be used in determining institutional eligibility for SFA funds and inform the Department of such designation. Further, the school must provide to the Department (and to both agencies involved) all materials documenting sufficient reason and cause for dual accreditation. See Section Ten of this Chapter for more on loss of accreditation and loss of eligibility.

Dual accreditation

ADMISSIONS STANDARDS

Each eligible institution definition includes a provision specifying the admissions standards that apply to that type of postsecondary school. An eligible school may admit as regular students only persons who have a high school diploma or its recognized equivalent, or who are beyond the age of compulsory school attendance.

Admissions standards

Regular student —A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized credential.

Students who are beyond the age of compulsory attendance, but who do not have a high school diploma or General Education Development Certificate (GED), must pass a written test to be eligible for SFA. For more information on this student eligibility requirement, see Chapter Two of this *Handbook* under "Ability to Benefit."

For SFA purposes, the school is not required to keep a copy of a student's high school diploma or GED. Rather, the school may rely on the student's certification that he or she has received the credential, and a copy of the certification must be kept on file. (This certification need not be a separate document. It may be collected on the school's admissions application.) The school may also require the student to provide supporting documentation.

Student may certify that H.S. diploma/ GED was granted

Generally, a **recognized equivalent of a high school diploma** is either a GED, or a State certificate (received after the student has passed a State authorized test) that the State recognizes as equal to a high school diploma. However, the Department recognizes that there are special cases. If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree, the student's academic transcript is considered equivalent to a high school diploma. A student who has excelled academically in high school and who has met formalized, written admissions policies of the school is also considered to have the equivalent of a high school diploma. These students may be eligible to receive SFA funds without having to pass a Department-approved test, provided they are no longer enrolled in high school.

Alternatives for special cases

A school that admits students who do not have a high school diploma or recognized equivalent has some additional considerations. An otherwise eligible institution does **not** qualify as an eligible institution if—

- it does not provide a four-year or two-year program leading to a bachelor's or associate degree, and
- for its latest complete award year, 50% or more of its regular enrolled students had neither a high school diploma or equivalent.

School must make GED program available

Also, a school that admits students without a high school diploma or its equivalent must make a GED preparatory program available to its students. The course does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The GED program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the GED program. The school must provide information about the availability of the GED program to affected students. The GED program must be proven successful — such programs include GED programs that are conducted by State and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates the program's success.

The law does not require a school to verify that a student is enrolled in a GED program, or to monitor the student's progress in the program. A student without a high school diploma or recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admissions requirement. A student may not receive SFA funds for the GED program, although he or she may be paid for postsecondary courses taken at the same time as the GED coursework, including remedial coursework at the secondary level or higher.

It is the school's responsibility to determine whether a remedial program is at the secondary level. However, if either the State, the school's accrediting agency, or the State agency recognized for the approval of public postsecondary vocational education determines that a remedial program is at the elementary level, the school must abide by that determination. For more on remedial coursework, including the admission of ability-to-benefit students, see Chapter Two of this *Handbook*.

OTHER ELIGIBILITY FACTORS

The Higher Education Amendments of 1992 added some requirements for institutional eligibility, which have been incorporated into the Institutional Eligibility regulations, published April 29, 1994. These requirements are here named: the 85 Percent Rule, the Correspondence Course Limitation, the Correspondence *Student* Limitation, the Incarcerated Student Limitation, and the Ability-To-Benefit Student Limitation.

School calculations must be attested to by CPA

All of these requirements involve certain percentage calculations, which are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. In each instance, a calculation performed by the school must be attested to by the certified public accountant (CPA) who prepares its audited financial statement or its SFA compliance audit. The CPA's report must be part of the audit record, and must include a recalculation if a school's initial calculation was in error. The CPA's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate.

School required to notify the Department

For each of the requirements and limitations given below, the school is required to notify the Department of its failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued limitation waiver. Except for the specific notification requirements under the 85 Percent Rule, this notification must occur by July 31 following the end of an award year.

Requirements to regain eligibility

To regain its eligibility lost due to the requirements or limitations listed below, the school must demonstrate its compliance with all eligibility requirements and its ability to stay outside prohibited limits for at least one award year. Further, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

THE 85 PERCENT RULE. To be eligible for SFA participation, a Proprietary Institution can derive no more than 85% of its revenues from the SFA programs. As specified in Section 600.5(d), a school must determine its revenue percentages using the following formula:

Fraction for 85% Rule calculation

$$\frac{\text{SFA program funds (except SSIG or FWS) used for tuition, fees, and other institutional charges to students}}{\text{The sum of revenues generated by the school from: (1) tuition, fees, and other institutional charges for students enrolled in eligible programs; plus (2) school activities* necessary for the education or training of students enrolled in those eligible programs}}$$

*to the extent not included in tuition, fees, and other institutional charges

Refunds not counted in fraction

In determining whether a school satisfies the 85 Percent Rule, the totals used in the fraction do **not** include refunds paid to or on behalf of students who have withdrawn, dropped out, been expelled, or otherwise failed to complete the period of enrollment. Charges for books, supplies, and equipment are not included in the fraction unless the amount is part of the tuition, fees, or other institutional charges.

In figuring what SFA funds were used to pay tuition, fees, and other institutional charges, a school may assume that any SFA funds disbursed (or delivered) to or on behalf of a student were used for such costs, unless those costs were otherwise paid by—

- Grant funds provided by non-Federal public agencies,
- Grant funds provided by independent private sources, or
- Funds from qualified government agency job training contracts.

Revenues from school activities

In figuring revenues generated by school activities, include only revenue from activities that are conducted on campus or at a facility under the control of the school, that are performed under the supervision of a faculty member, and that are required for all students in a specific educational program at the school. The school's "85 Percent Rule" calculation must be attested to by a CPA, as discussed previously.

Dear Colleague Letter

The 85 Percent Rule was published in final regulations on April 29, 1994. However, P. L.. 103-333 precluded the Department from implementing the 85 Percent Rule regulations until July 1, 1995. As of July 1, 1995, the 85 Percent Rule will apply to all institutional eligibility determinations for Proprietary Institutions. The statutory delay in implementing the 85 Percent Rule will require special considerations for reporting and determining eligibility for the 1995-96 award year. A discussion of these considerations is contained in a Dear Colleague Letter (DCL) scheduled for publication in the Spring of 1995. A summary of the information provided in the DCL follows—

- A Proprietary Institution must determine whether it satisfied the 85 Percent Rule during its most recently completed fiscal year, completed as of July 1, 1995. For example, for schools using a calendar year as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 1994. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 1995.

- Schools that fail to satisfy the 85 Percent Rule lose their eligibility on the last day of that fiscal year. However, because of the statutory delay in implementing the 85 Percent Rule, schools that otherwise would have lost their eligibility prior to June 30, 1995 will be considered as losing their eligibility as of June 30, 1995. Thus, those schools will be ineligible to participate in the SFA programs beginning with the 1995-96 award year.

- Schools have 90 days after their most recently completed fiscal year has ended to report to the Secretary if they did not satisfy the 85 Percent Rule for that period. However, because of the statutory delay in implementing the 85 Percent Rule, schools that otherwise would have had to notify the Department regarding their failure to satisfy the 85 Percent Rule prior to July 1, 1995 will have until July 10, 1995 or 90 days after the end of their fiscal year, whichever is later, to provide that notice to the Department.

- Schools that determine that they satisfied the 85 Percent Rule during their most recently completed fiscal year must have the auditor who prepares their audited financial statement report on the accuracy of that determination based upon performing an "agreed-upon procedures attestation engagement." That report is submitted as part of the audited financial statement. However, if a school did not have its auditor make that report as part of the audited financial statement because of the temporary delay in implementing the 85 Percent Rule, the school has until July 31, 1995 or 90 days after the end of their fiscal year, whichever is later, to have that report submitted.

- Finally, because the Department will implement the 85 Percent Rule starting with the 1995-96 award year, the Department will not hold any Proprietary Institution liable for any SFA program funds it received for the 1994-95 award year solely because it failed to satisfy the 85 Percent Rule in that year.

A school must notify the Department of its failure to satisfy the 85 Percent Rule or, if it does satisfy the 85 Percent Rule, the school must submit the auditor's report to the Department at the following address:

U.S. Department of Education
Institutional Participation Division
Room 3522, ROB-3
600 Independence Avenue, S.W.
Washington, D.C. 20202

BEST COPY AVAILABLE

CORRESPONDENCE COURSE LIMITATION. An otherwise eligible institution is **not** eligible for SFA program participation if, for its latest complete award year, more than 50% of its **courses** are taught through correspondence.*

Correspondence Course— A home study course provided to students who are not physically attending classes at the school; a course that is part residential and part correspondence. (Includes video courses unless students physically in attendance at the school receive the same video instruction in the same award year.)

Telecommunications Course— A course offered principally through television, audio, or computer transmission, including open broadcast, closed circuit, cable, microwave, satellite, or audio or computer conferences. (Includes video courses if students physically attending the school also receive the video course in the same award year.)

Exceptions for certain institutions

This requirement is waived for a school that offers a two-year associate degree or four-year baccalaureate degree program, if the students enrolled in correspondence courses receive no more than 5% of the total SFA funds received by all that school's students. This requirement also does not apply to an institution that mainly provides vocational adult education or job training (as defined under the Carl D. Perkins Vocational and Applied Technology Education Act).

In calculating the percentage of correspondence courses, a correspondence course can be either a complete educational program offered by correspondence, or a single course offered by correspondence that is part of a larger, on-campus (residential) program. Regardless of how many times a course or program is offered during the award year, it is counted only once. (A course offered both through correspondence and on campus is counted as two courses when determining the total number of courses offered by the school.) The school's "Correspondence Course" calculation must be attested to by a CPA, as discussed previously.

*A telecommunications course is considered to be a correspondence course if the sum of telecommunications courses and other correspondence courses provided by the school during its latest complete award year was equal to or more than 50% of the total courses provided that year.

Head count

CORRESPONDENCE *STUDENT* LIMITATION. An otherwise eligible institution is also **not** eligible for SFA program participation if, for its latest complete award year, 50% or more of its regular **students** are enrolled in correspondence courses. Telecommunications courses may be considered to be correspondence courses (see definitions and footnote on previous page). The rules for calculation of this percentage are the same as given previously for the calculation of the correspondence *course* percentage. The calculation should reflect a straight "head count" of students. That is, each regular student must be counted regardless of full-time or part-time attendance, and will be counted only once during an award year, regardless of withdrawal and re-enrollment. (Students who enrolled, withdrew, and subsequently received a full refund should not be included in the count.) The school's "Correspondence Student" calculation must be attested to by a CPA, as discussed previously.

Waiver possible

INCARCERATED STUDENT LIMITATION. An otherwise eligible institution is **not** eligible for SFA program participation if, for its latest complete award year, 25% or more of its regular students are incarcerated.* If requested by the school, the Department may waive this limitation for a nonprofit school offering a two-year associate degree or a four-year baccalaureate degree program, upon the school's request. (For the purposes of this waiver, *nonprofit* includes public institutions.) For information on the eligibility of incarcerated students for SFA assistance, see Chapter Two.

For a school offering **only** four-year or two-year programs that lead to bachelor's or associate degrees, respectively, the waiver would apply to all programs offered at the school. However, if the school offers other types of programs, the waiver would apply to any of the school's four-year and two-year programs leading to a bachelor's or associate degree, respectively, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations, and must be attested to by a certified public accountant (CPA), as discussed previously.) If granted, the waiver extends as long as the school continues to meet the waiver requirements each award year.

*An "incarcerated student" is a student who is serving a criminal sentence in a Federal, State, or local penitentiary, prison, jail, reformatory, work farm or other similar correctional institution. (Does not include detention in a halfway house, home detention, or weekend-only sentences.)

ABILITY-TO-BENEFIT LIMITATION. An otherwise eligible institution that does **not** offer a two-year associate degree or a four-year baccalaureate degree program is **not** eligible for SFA program participation if 50% or more of its regular enrolled students are admitted without a high school diploma or its equivalent (here called ability-to-benefit students).

The Department may waive this limitation for a nonprofit school if it exceeds the limitation because it serves significant numbers of ability-to-benefit students through government agency contracts, such as a contract under the Job Training Partnership Act. Such a waiver is only possible if no more than 40% of the school's regular enrollment consists of ability-to-benefit students who are not served under the above-mentioned contracts. If granted, the waiver extends as long as the school continues to meet the waiver requirements each award year. The school's "Ability-To-Benefit" calculation must be attested to by a CPA, as discussed previously.

Waiver possible

"TWO-YEAR" RULE

To be eligible as a Proprietary Institution or a Postsecondary Vocational Institution, the applicant institution must have provided continuous postsecondary instruction (and been legally authorized to do so) for at least two consecutive years. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or other Federal agencies' requirements. An additional location must also satisfy the two-year rule by operating independently for two years before it may be evaluated to be considered a free-standing institution. (Time as an additional location of an eligible Proprietary Institution or Postsecondary Vocational Institution does not count toward the two-year rule, but time as an eligible Institution of Higher Education or its additional location does.)

A branch campus* seeking status as a main campus or free-standing institution is subject to the two-year rule, but its time as a branch campus counts toward the two years. (For more information on additional locations and branch campuses, including definitions of these two terms, see Section Ten of this Chapter.)

*A "branch campus" is geographically apart and independent of the main campus of an institution. It must be permanent in nature, offer courses in educational programs leading to a degree, have its own faculty and administration, and have its own budgetary and hiring authority.

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

Subpart E of the Institutional Eligibility regulations establishes the eligibility criteria for foreign schools. In general, by law, foreign schools can participate in FFEL programs if they are comparable to an Institution of Higher Education as defined earlier in this section (also see Chapter Ten of this *Handbook*) and have been approved by the Secretary. Additionally, the above regulations added specific requirements for foreign medical schools.*

Requirements for foreign medical schools

To be eligible for FFEL participation, a foreign medical school must meet the same requirements as other foreign schools and must also—

- provide, and require its students to complete, a medical program of clinical and classroom instruction, not less than 32 months long,
- have graduated classes during each of the two years preceding the school's application for eligibility,
- for the above-mentioned medical program, employ only faculty members whose credentials are equivalent to the credentials of faculty teaching similar courses in U.S. medical schools, and
- be accredited, for a public or private nonprofit school, by a recognized agency, **or** for all other schools, by an authorized agency whose standards have been determined, by a panel approved by the Department, to be comparable to U.S. standards of accreditation for medical schools.

In addition, the law specifies the following requirements for foreign medical schools—

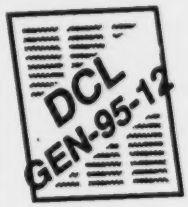
- at least 60% of the full-time regular students enrolled in the previous year (and 60% of the most recent graduates) must be other than U.S. citizens or nationals, permanent residents, or eligible non-citizens of the United States, and
- at least 60% of the students and graduates (for the past three years) who took any step of an exam from the Educational Commission for Foreign Medical Graduates (ECFMG)—including the ECFMG English test—in the previous year must have received a passing score.

*A "foreign medical school" is defined as a school that is not located in a State, and is qualified and listed as a medical school in the most current *World Directory of Medical Schools*, published by the World Health Organization (WHO).

A school not meeting all the 60% requirements can still be eligible if the school's clinical training program was approved by a State as of January 1, 1992 and is currently approved. Continued eligibility is dependent upon annual submission of the data and information that demonstrates compliance with these 60% requirements (or the exception).

REPORTING INFORMATION ON FOREIGN SOURCES

The law requires certain postsecondary schools (whether or not the school is eligible to participate in the SFA programs) to report ownership or control by foreign sources. The law also requires these postsecondary schools to report contracts with, or gifts from the same foreign source that, alone or combined, have a value of $250,000 or more for a calendar year. These reports must be filed with the Department by the January 31 or July 31, whichever is sooner, after the date of receipt of the gifts, date of the contract, or date of ownership or control.



Definitions of gift and contract

Gift — Any gift of money or property.

Contract— Any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.

A school (and each campus of a multicampus school) must report this information if the school—

Who must report

- Is legally authorized to provide a program beyond the secondary level within a State,
- Provides a program for which it awards a bachelor's degree or a more advanced degree, or at least a 2-year program acceptable for full credit toward a bachelor's degree,
- Is accredited by a nationally recognized accrediting agency, and
- Is extended any Federal financial assistance (directly or indirectly through another entity or person), or receives support from the extension of any Federal financial assistance to the school's subunits.

Contents of disclosure report

Each disclosure report to the Department must contain—

- For gifts received from or contracts entered into with a foreign source other than a foreign government, the aggregate dollar amount of the gifts and contracts attributable to a particular country.*
- In the case of a school that is owned or controlled by a foreign source, the identity of the foreign source, the date on which the foreign source assumed ownership or control, and any changes in program or structure resulting from the change in ownership or control.
- For gifts received from or contracts entered into with a foreign government, the aggregate amount of the gifts and contracts received from each foreign government.
- For restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (other than a foreign government), the amount, date of receipt of the gift or date of the contract, and description of the conditions and restrictions.
- For restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign government, the amount, the date of receipt of the gift or date of the contract, a description of the conditions or restrictions, and the name of the foreign government.

Restricted or conditional gift or contract - any endowment, gift, grant, contract, award, present, or property of any kind which includes provisions regarding—

- the employment, assignment, or termination of faculty,
- the establishment of departments, centers, research or lecture programs, or new faculty positions,
- the selection or admission of students, or
- the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.

*The country to which a gift or a contract is attributable is the country of citizenship, or, if unknown, the principal residence for a foreign source who is a natural person and the country of incorporation, or if unknown, the principal place of business for a foreign source which is a legal entity.

In lieu of the reporting requirements listed above—

- If a school is in a State that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the State may be filed with the Department. The school must provide the Department with a statement from the appropriate State official indicating that the school has met the State requirements.

- If another department, agency or bureau of the Executive Branch of the Federal Government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

Because Dear Colleague GEN-95-12 was the first official notification to schools of these reporting procedures, the reports due July 31, 1995 should include an itemization of all gifts received and contracts entered into, and ownership or control by a foreign source since July 23, 1992 (the effective date of the law). However, a school is required to report gifts or contracts only if the value is $250,000 or more from any single foreign source in any of these calendar year periods: July 23, 1992—December 31, 1992; January 1, 1993—December 31, 1993; January 1, 1994—December 31, 1994; and/or January 1, 1995—July 31, 1995.

For subsequent reports, the January 31 report should cover the period July 1—December 31 of the previous year, and the July 31 report should cover January 1—June 30 of the same year.

Reports should be sent to—

If by mail...	U.S. Department of Education Institutional Participation Division Foreign Gift Team 600 Independence Avenue, S.W. Washington, D.C. 20202-5323
If by fax...	(202)260-6107 ATTN: Foreign Gift Team
If by overnight mail or courier delivery...	U.S. Department of Education Institutional Participation Division Foreign Gift Team 7th and D Streets, S.W. GSA Building Room 3030 Washington, D.C. 20407

Where to send reports

If by Internet...	forgift@sfa.ope.ed.gov

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in Federal District Court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

All information provided by schools under this law is open to inspection and duplication by members of the public.

PROGRAM ELIGIBILITY REQUIREMENTS

To qualify as an eligible institution, a school must offer at least one eligible program. As stated previously, not all programs at an eligible institution will necessarily be eligible, but at least one of the programs at the school must meet the eligible program requirements.

Institution of Higher Education

A school qualifies as an Institution of Higher Education if (in addition to meeting all other eligibility requirements) it offers a program that leads to an associate, bachelor's, professional, or graduate degree. For such programs, there are no minimum program length requirements.

However, a school may also qualify as an Institution of Higher Education if it offers a program of at least two academic years in duration that is acceptable for full credit toward a bachelor's degree, or a program of at least one academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.*

Proprietary or Postsecondary Vocational schools

There are three types of eligible programs that will qualify an otherwise eligible school as a Proprietary Institution or a Postsecondary Vocational Institution. All of these three programs are required to have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

Undergraduate programs

The **first type** of eligible program is one that must provide at least 600 clock hours, 16 semester or trimester hours or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks. The program *may* admit as regular students persons who have not completed the equivalent of an associate degree.

*A "recognized occupation" is either one that is listed in the "occupational division" of the Dictionary of Occupational Titles (published by the U.S. Department of Labor), or one that is considered by the Department, in consultation with the Department of Labor, to be a recognized occupation.

Shorter programs

The **second type** of eligible program is one that must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks. The program must be a graduate or professional program **or** admit as regular students *only* persons who have completed the equivalent of an associate degree. Effective July 1, 1993, this type of program may qualify for purposes of **all** the SFA programs, not just the FFEL programs.

"Short-term" programs

The **third type** of program is the "short-term program." **A short-term program qualifies for the FFEL and Direct Loan programs only.** A short-term program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks. The program must admit as regular students *some* persons who have not completed the equivalent of an associate degree. These programs must also satisfy the qualitative factors for completion rates, placement rates, length of the program and period of existence of the program. Specifically, these programs must—

Qualitative factors for short-term programs

- Have a verified completion and placement rate of at least 70%,
- Be not more than 50% longer than the minimum training period required by the State (or Federal agency), if any, for the occupation for which the program of instruction is intended, and
- Have been in existence for at least one year.

For the purpose of demonstrating compliance with these qualitative factors, a school must calculate the completion and placement rates **for the award year**, as explained below. As discussed previously in this Section (in relation to the 85 Percent Rule) the CPA who prepares its compliance audit report must attest to the accuracy of the school's calculation of completion and placement rates.

COMPLETION RATE CALCULATION

$$\frac{\text{Number of regular students who received credential for successfully completing the program within 150 \% of the length of the program}}{\text{Number of regular students enrolled for the year - number of regular students who withdrew with a 100\% refund* - number of regular students enrolled at the end of the year}}$$

*less any permitted administrative fee

PLACEMENT RATE CALCULATION

$$\frac{\text{Number of students who obtained employment* within 180 days of receiving credential, and are employed (or have been employed) for at least 13 weeks following receipt of credential}}{\text{Number of students who received credential for successfully completing the program}}$$

*in the recognized occupation for which they were trained, or a related comparable occupation

School must document employment

The school must document the employment of any student it includes as "employed" in the placement rate calculation. Examples of such documentation would include, but are not limited to, a written statement from the employer, signed copies of State or Federal income tax forms, or written evidence of payments of Social Security taxes.

Definition of comparable occupation

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

THE 12-HOUR RULE

The three types of eligible programs discussed above, which qualify an otherwise eligible school as a Proprietary Institution or a Postsecondary Vocational Institution, are required to have a specified number of "weeks of instruction." The requirements for a "week of instruction" are similar to those for a "week of instructional time" for the academic year definition. (See the discussion of academic year on pg 3-26.)

Week of Instruction

For all programs except those measured in credit hours without standard terms, a "week of instruction" is any seven-day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs.

Instruction does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.

For the 1994-95 award year, for educational programs measured in credit hours without standard terms (semesters, trimesters, or quarters), a week of instruction had to include at least five days of instruction, examinations, or preparation for examinations within a consecutive seven-day period. Beginning with the 1995-96 award year, a week of instruction for these programs must instead include at least **12 hours** of instruction, examinations, or preparation for examination within a consecutive seven-day period.

Minimum number of weeks, minimum number of hours

The 12-hour rule in effect requires a school to demonstrate that certain programs have not only a minimum number of weeks, but also a minimum number of hours. For example, in order for a program to meet the eligible program definition that requires at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of instruction, examinations, or preparation for examinations offered during a minimum of 15 weeks of instruction, the program must meet for a minimum of 15 calendar weeks over which a **minimum of 180 hours of instruction**, examinations, or preparation for examinations occur (12 hours of instruction, examinations, or preparation for examinations for 15 calendar weeks).

A school that wants to set its program to be only 15 calendar weeks long would therefore have to meet an average of 12 hours per week for the 15 calendar week period in order for the program to be eligible. A school with a program that meets less frequently than 12 hours a week would have to meet for enough weeks to provide 180 hours of instruction, examinations, or preparation for examinations. For example, a program meeting six hours per week would have to be 30 calendar weeks long in order to be eligible under this provision.

Inclusion of holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, an institution may not include a holiday for these calculations unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

ACADEMIC YEAR REQUIREMENTS

30-week minimum of instructional time

Every eligible program, including graduate programs, must have an academic year that contains a minimum of 30 weeks of instructional time. In addition, for undergraduate programs, the law requires that, over the minimum of 30 weeks of instructional time, a full-time student must be expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. A school may determine on its own the amount of work a full-time graduate or professional student is expected to complete over an academic year.

Determining academic year length

A school may have different academic years for different programs, but must use the same academic year (1) for calculating all SFA awards for students enrolled in a particular program and (2) for all other SFA program purposes. To determine the number of weeks of instructional time, a school must count the period that begins on the first day of classes and ends on the last day of classes or examinations.

Definition of a week

For all programs except those measured in credit hours without standard terms, a "week of instructional time" is any seven day period in which at least one day of regularly scheduled instruction, examination, or preparation for examinations occurs. (Instructional time does not include periods of orientation, counseling, vacation, or other activity not related to class preparation or examination.) The requirements for a "week of instructional time" are similar to those for a "week of instruction" for the eligible program definitions (see pg. 3-24).

For the 1994-95 award year, for educational programs measured in credit hours without standard terms (semesters, trimesters, or quarters), a week of instructional time had to include at least five days of instruction, examinations, or preparation for examinations within a consecutive seven-day period. Beginning with the 1995-96 award year, a week of instruction for these programs must instead include at least **12 hours** of instruction, examinations, or preparation for examinations within a consecutive seven-day period.

30 calendar-week year assumes class meets 12 hours per week

This requirement is to be implemented in the same manner as the 5-day rule. For example, a school wishing to set its academic year to be only 30 calendar weeks long (for this purpose a calendar week is seven consecutive days) would have to meet an average of 12 hours per week for the 30 calendar-week period. A school with a program that meets less frequently than 12 hours a week would have to meet enough calendar weeks to provide 360 hours of instruction, examinations, or preparation for examinations (30 calendar weeks x 12 hours per week) in order to have a program offered over a full academic year (equivalent to 30 weeks of *instructional* time).

For example, if a school wants to establish an academic year of 30 weeks of instructional time for a credit-hour, nonterm program that meets 10 hours a week, the school would need to have approximately 36 calendar weeks (36 calendar weeks x 10 hours per week = 360 hours of instruction, examinations, or preparation for examinations) in order to have the equivalent of 30 weeks of instructional time for a full academic year. Therefore, in this example, a student enrolled in this program would not be eligible to take out another Stafford loan until he or she had completed the required amount of work and 36 calendar weeks had elapsed. A school must also use this method to determine when one-third and two-thirds of an academic year have occurred.

Pell calculations

When calculating awards under the Pell Grant program, a school must always use weeks of instructional time (see Chapter Four of this *Handbook*). However, the length of the academic year in calendar weeks will probably exceed the number of weeks of instructional time.

Inclusion of holidays

Because the 12-hour rule does not require a school to offer instruction, examinations, or preparation for examinations on specific days, a school may not include a holiday as a day of instruction unless regularly scheduled instruction, examinations, or preparation for examinations occurs on that day.

For more information on the effects of the 12-hour rule on a particular SFA program, see the relevant program chapter in this *Handbook*.

Reductions in academic year length

The law permits schools that provide two-year or four-year associate or baccalaureate degree programs to apply to the Department if they want to establish a full academic year of less than 30 weeks of instructional time. The Department is permitted to grant a reduction in the length of an academic year to no less than 26 weeks of instructional time. Under the law, these schools would be permitted to have an academic year of less than 30 weeks of instructional time (but no less than 26 weeks of instructional time) without any reduction in the amount of SFA funds that a student enrolled in those programs is eligible to receive for an entire academic year. Currently, there are two types of reductions.

Transitional reductions

A *transitional reduction* is available to schools that had an academic year of 26-29 weeks as of July 1, 1994, and need a period of transition to lengthen the academic year of their programs to 30 weeks. A transitional reduction cannot extend beyond July 1, 1996.

Long-term reductions

A *long-term reduction* is available to schools that want to begin or continue to operate with a reduced academic year on a long-term basis. This type of reduction must be renewed each time a school is required to apply for recertification.

When evaluating a school's application for a reduction, the Department will consider factors such as—

- the school's compliance with awarding and disbursement procedures based on the academic year requirements of the Higher Education Amendments of 1992,
- the approval of the academic year by the school's accrediting agency or State agency,
- the hours of attendance and other coursework that a full-time student is required to complete in the academic year, and
- any unique circumstances the justify granting the request.

For further details on the information required for submission of a request for a reduction, see CFR 668.3.

The November 29, 1994 final regulations clarify that a school that is ineligible for a reduction in the length of an academic year because the school was not in compliance with awarding and disbursement procedures, may be eligible if the school makes arrangements with the Department to repay any resulting liabilities.

CLOCK HOUR/CREDIT HOUR CONVERSIONS

Units of measurement — clock hours vs. credit hours

A student's period of attendance is measured according to several commonly accepted academic standards. A clock hour is based on an actual hour of attendance, though each hour may include a ten-minute break. Credit hours are typically based on two hours of homework for each hour of class attendance.

It is not allowable to count more than one clock hour per 60-minute period; in other words, a school cannot schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments. The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours). Seven real-time attendance hours **cannot** count for more than seven clock hours.

Credit hours — semester hours vs. quarter hours

The difference between semester hours and quarter hours is significant. A semester term at a traditional school may last 16 weeks, allowing for 15 weeks of classes and an exam week. Thus, one semester hour would consist of 15 hours of class and 30 hours of preparation. Since an academic quarter consists of 10 weeks of class and an exam week, a quarter hour would be made up of 10 hours of class and 20 hours of preparation. Based on this comparison, a quarter hour represents 2/3 of the academic work required by a semester hour. The difference between semester and quarter hours is reflected in the standards for minimum program length — a 15-week training program must be at least 16 semester hours or 24 quarter hours. (The same distinction is made when defining an academic year and full-time enrollment.)

Clock hour measurement required for some

In 1989, the Institutional Eligibility regulations were amended to require a school to use clock hours for determining SFA program eligibility if the school's State licensing agency required a school to measure its educational programs in clock hours in order to be legally authorized or as part of applying for a license or charter. **The regulations published April 29, 1994 omitted the specific language of this requirement;** however, schools must still comply with this requirement if mandated by the school's State licensing agency.

Clock-to-credit conversion requirements

Further, Sections 668.8 and 668.9 of the General Provisions regulations, published on July 23, 1993, required certain institutions that offer an undergraduate vocational program in credit hours to use a specific clock-to-credit hour formula to determine if that program meets the SFA program eligibility criteria and to determine the total number of credit hours in that program, for SFA program purposes. This change was made in response to past program abuses, and was intended to prevent a school from artificially inflating a program's length by converting from clock hours to credit hours.

Exceptions

Undergraduate associate, bachelor's, or professional programs of at least two years are exempt from these requirements. A program is also exempt if each course within the program is fully acceptable for credit toward one of those degree programs at the school. The November 29, 1994 final regulations reinstate an additional exemption (removed for the 1994-95 award year) for programs that lead to a degree and that are **equivalent** to an associate, bachelor's, or professional program of at least two years. A program is also exempt if each course within the program is fully acceptable for credit toward the equivalent degree program at the school. **This final exemption does not permit a non-degree program to seek a determination that it is equivalent to a degree program.**

Finally, P. L. 103-382 exempts public or private nonprofit hospital-based diploma schools of nursing from using any clock-to-credit hour formula to calculate awards for the SFA programs. Although this law was signed by the President on October 20, 1994, it is effective retroactively to July 1, 1994.

Ongoing litigation

These clock to credit hour conversion final regulations are currently under litigation and their enforcement is subject to a preliminary injunction. A decision from the District Court is pending. The Department will not enforce these regulations unless a favorable decision is issued by the courts.

INTERPRETING ELIGIBLE PROGRAM REQUIREMENTS

Program length and educational credentials

Generally, a student must be enrolled in an eligible program to receive SFA funds. A school's eligibility does not necessarily extend to all its programs, as is illustrated on the facing page. Two of the basic characteristics of an eligible program are its length and the educational credentials it offers. As discussed earlier, certain eligible programs must meet minimum program length requirements.

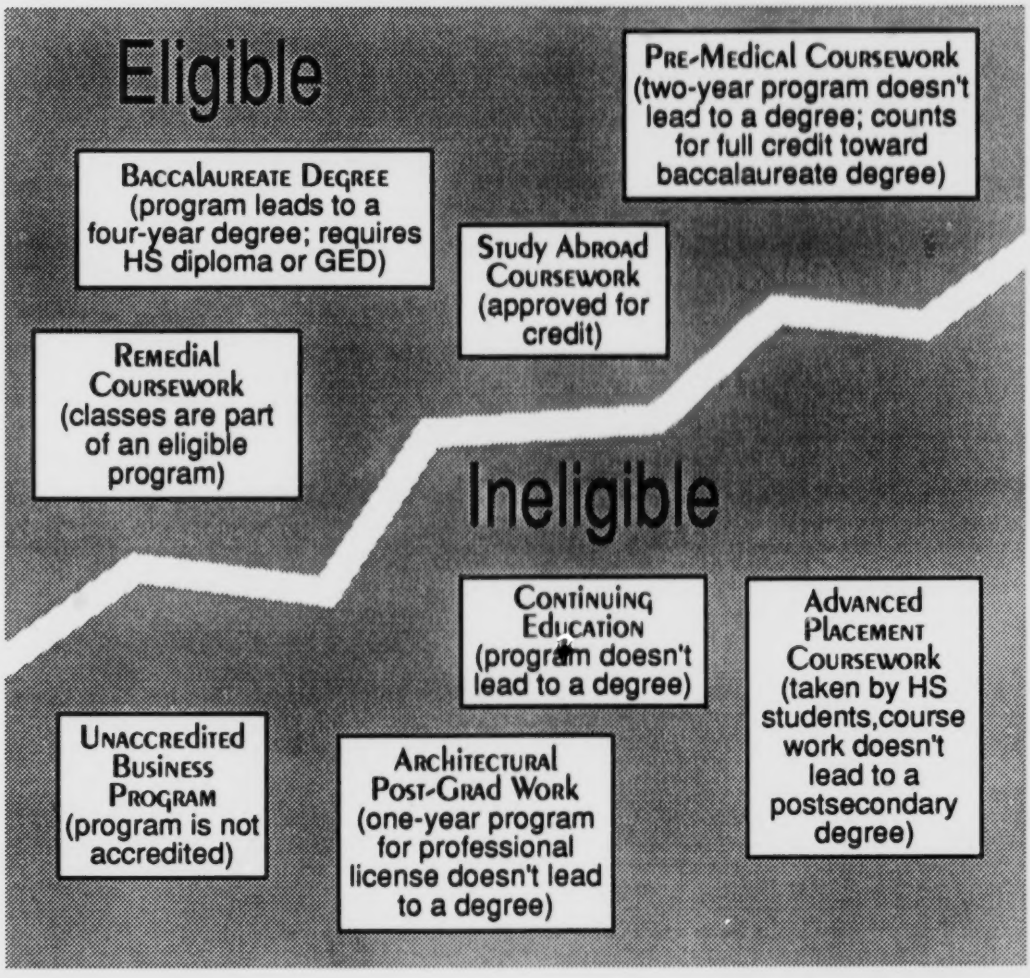
A school's eligibility extends to all eligible programs and locations that were identified on the school's application for participation, unless the Department determined that certain school programs or locations did not meet the eligibility requirements. In general, the school's eligible non-degree programs and locations are specifically named on the approval notice. Locations and program can be added later; the related requirements and procedures are discussed in Section Ten of this Chapter.

Programs that meet more than one definition

The school is ultimately responsible for ensuring that a program is eligible *before* awarding SFA funds to students in that program. The school should review such factors as the length of the program, the program's admissions requirements, and the degree or certificate awarded upon completion. In addition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited), and is authorized by the appropriate State agency to offer the program (if the State licenses individual programs at postsecondary institutions). As noted previously, a school's educational programs may meet more than one statutory definition. It is imperative to understand the various requirements and know which take precedence.

"Not all programs at an eligible school are eligible for SFA funds..."

Eligible to participate in the SFA programs under the definition of an institution of higher education


Eligible
Pre-Medical Coursework (two-year program doesn't lead to a degree; counts for full credit toward baccalaureate degree)
Baccalaureate Degree (program leads to a four-year degree; requires HS diploma or GED)
Study Abroad Coursework (approved for credit)
Remedial Coursework (classes are part of an eligible program)
Ineligible
Continuing Education (program doesn't lead to a degree)
Advanced Placement Coursework (taken by HS students,course work doesn't lead to a postsecondary degree)
Unaccredited Business Program (program is not accredited)
Architectural Post-Grad Work (one-year program for professional license doesn't lead to a degree)

ADDITIONAL ELIGIBLE PROGRAM REQUIREMENTS

Several SFA programs have additional requirements that an educational program must meet to be eligible. For example, only *undergraduate educational programs* are eligible under the Pell Grant and FSEOG programs. Further, *correspondence programs* are not eligible unless they meet the general requirements for an eligible program and are required for the student's regular program of study, leading to a degree or certificate. As mentioned earlier in this Section, certain telecommunications courses may be considered correspondence courses and therefore may be subject to the same requirements.

ESL programs

An *English as a Second Language* program is eligible **only** for Pell Grant assistance. It must meet the general requirements for an eligible program (leads to a degree or other credential) and may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have. (The school must document its determination that the ESL instruction is necessary for each student enrolled.) For the 1994-95 award year, schools were required to test each student at the end of the program to substantiate that the student had attained adequate proficiency in written and spoken English to use already existing knowledge, training, or skills. This requirement has been removed beginning with the 1995-96 award year.

A school may request an eligibility determination from IPD for an ESL program. (Remember, a student may receive SFA funds for ESL coursework that is part of a larger eligible program.)

Study abroad programs

In previous years, schools have had difficulty determining the eligibility of Study Abroad programs. However, the law clarifies that Study Abroad courses are eligible for SFA funds, regardless of whether they are *required* for the student's program of study, as long as they are *accepted for credit* in the student's program. Other language in the law requires schools to notify Study Abroad students of the availability of such assistance, and to certify on the new Program Participation Agreement that they will not deny SFA funds to such students. (An eligible Study Abroad program must also meet the contractual requirements discussed in Section Six of this Chapter.)

Flight school

Under the FFEL programs, a *flight school program* must maintain current valid certification by the Federal Aviation Administration to be eligible.

SECTION TWO: ADMINISTRATIVE AND FISCAL STANDARDS

Trusteeship of SFA funds

Administrative and fiscal standards are important because all SFA funds received by a participating school are held in trust by that school, solely for the intended student beneficiaries. A school may contract with a consultant for assistance in administering the SFA programs. However, the school ultimately is responsible for the use of SFA funds and will be held accountable if the consultant mismanages the programs. (See the "Third-Party Servicers" discussion on pg. 3-46 for more details.)

Administrative requirements found in the law and regulations

Administrative requirements to which a participating school is subject are found in the Higher Education Act of 1965, as amended, the General Provisions regulations, and the regulations for each SFA program.

The law requires that all individuals who make decisions about SFA program administration or SFA student eligibility must report (when asked by the Department) on any financial interests held in other SFA schools. This requirement applies to all employees, consultants, lenders, guaranty agencies, servicers, accrediting agencies, State licensing boards, and secondary markets (including all officers, general partners, and directors of the above-mentioned entities).

The law also states that a school is not considered eligible for SFA program participation if it filed for bankruptcy on or after July 23, 1992, or if the school (or its CEO or owner) was convicted or pled guilty or *nolo contendre* to a crime or was judicially determined to have committed fraud involving SFA funds. A school's eligibility and participation are considered terminated as of the date of the bankruptcy filing, or on the date of conviction or guilty plea (or the date of fraud determination).

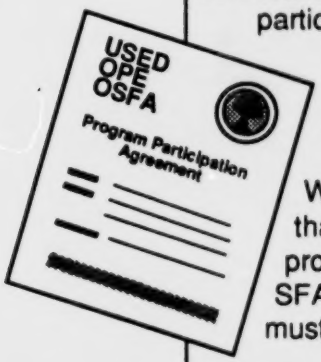
These are just some of the SFA administrative and fiduciary requirements. This section reviews the many requirements that apply to SFA schools, with emphasis on the recent changes in the regulations.

THE PROGRAM PARTICIPATION AGREEMENT

An eligible school must enter into a Program Participation Agreement (PPA or Agreement) with the Department to participate in any SFA program other than the State Student Incentive Grant (SSIG) program or the National Early Intervention Scholarship Program (NEISP). The PPA covers the school's participation in the following programs: Pell Grant, FSEOG, FWS, Federal Perkins (Perkins), FFEL, and PAS. Currently, schools participating in the Direct Loan program have a separate PPA.

Purpose and scope of the PPA

Under the PPA, the school agrees to comply with the laws and regulations governing the SFA programs. The Agreement automatically terminates when the school is recertified, loses eligibility, has a change of ownership that results in a change of control, loses its provisional certification, stops providing education, or voluntarily terminates SFA participation. The Agreement may also be terminated if the Department or a SPRE finds the school to be in violation of statutory or regulatory requirements. For more on the PPA and loss of approval to participate, see Section Ten of this Chapter.



When entering into an Agreement, the school must demonstrate that it is financially responsible and administratively capable of providing the education it promises and of properly managing the SFA programs. After being certified for SFA participation, the school must administer SFA funds in a prudent and responsible manner.

PPA requirements

The PPA lists some of the basic administrative requirements of SFA participation. Many of these are discussed in this or other chapters of this *Handbook*, as noted below—

1. The school will provide timely information on its administrative capability and financial responsibility to the Department, and to the appropriate State, guaranty, and accrediting agencies. (Sect. 2)

2. If the school advertises job placement rates to attract students, it must provide to prospective students any relevant information on State licensing requirements for the jobs for which the offered training will prepare them. (Sect. 8)

3. The school cannot deny SFA on the grounds that a student is studying abroad in an approved-for-credit program. (Sect. 1)

4. To begin participation in the FFEL programs (or if a school changes ownership or changes its status as a parent or subordinate institution), the school must develop a Default Management Plan for approval by the Department, and must implement the plan for at least two years. (Chapter 10)

5. The school must acknowledge the authority of the Department and other entities to share information regarding fraud, abuse, or the school's approval to participate in the SFA programs. (Sect. 10)

6. The school cannot knowingly employ or contract with (in the administration of or receipt of SFA funds) any individual, agency, or organization that has been convicted of or pled guilty or *nolo contendre* to a crime or was judicially determined to have committed fraud involving the misuse of SFA funds. (Sect. 2)

7. The school must, in a timely manner, complete surveys under the Integrated Postsecondary Education Data System (IPEDS) or any other data collection effort of the Department. (Sect. 8)

8. If the school offers athletically related student aid, it must annually compile data relating to its revenues and expenses, total and those related to athletics; this data must be audited and provided to the Department and to the public. (Sect. 2)

9. The school cannot penalize in any way a student who is unable to pay institutional costs due to compliance with the SFA program requirements, or due to a delay in Federal aid disbursement caused by the school. (Sect. 2)

10. The school cannot pay commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for SFA funds) to persons engaged in recruiting, admission, or financial aid administration. (Sect. 2)

11. The school must comply with the requirements of the Department, as well as those of SPREs and accrediting agencies. (Sect. 2)

12. The school must have a fair and equitable refund policy in accordance with regulations. (Sect. 5)

Processing fee for SFA funds prohibited

13. Schools cannot charge for processing or handling any application or data used to determine a student's SFA eligibility. For instance, the school may not charge (or include in the student's cost of attendance) a fee to certify a loan application, complete a deferment form, process a Pell Grant payment, verify an application, or send or request a financial aid transcript.

Use of free Federal form

14. A student may always use the Free Application for Federal Student Aid (FAFSA) to apply for SFA funds. However, a school may require additional data that is not provided on the Federal form to award institutional or State aid. Effective for the 1993-94 award year, institutional charges for collecting such data must be reasonable and within marginal costs.

The above list is not exhaustive; schools must carefully review **all** of the requirements listed on their PPA and those specified in 34 CFR 668.14. In addition, a school must meet any requirements for participation specific to an individual SFA program.

When a school signs the Program Participation Agreement, it agrees to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations (CFR), which apply to all students in the educational program, not just SFA recipients.

FINANCIAL RESPONSIBILITY

Standards of financial responsibility

In order to participate in the SFA programs, a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit an audited financial statement to the Department every year, within four months of the end of the school's fiscal year. A school is also required to submit a compliance audit that is used to evaluate the school's administration of the SFA programs. See Section Seven of this Chapter for more information on the submission of a compliance audit.*

New regulations published

Final regulations published on April 29, 1994 have greatly modified the standards that a school must meet in order to demonstrate financial responsibility. In addition, the November 29, 1994 final regulations made a couple of changes to the financial responsibility standards. What follows is a general overview of those standards; however, schools should refer to 34 CFR 668.15 for complete information.

Three categories

The financial responsibility standards can be divided into three categories: (1) **General Standards** (basic financial standards that all schools are required to meet), (2) **Type-Specific Standards** (standards that apply specifically to each type of school—for-profit, nonprofit, and public), and (3) **Performance and Affiliation Standards** (standards to evaluate a school's past performance and persons affiliated with the school).

General standards for all schools

To prove financial responsibility, a school must demonstrate that it is—

- providing the services described in its official publications and statements,
- providing the administrative resources necessary to comply with the requirements for SFA participation,
- meeting all of its financial obligations, which includes but is not limited to making refunds that it is required to make and repayment of SFA program liabilities, and
- current in its debt payments.

A school must also demonstrate that it has not had a statement by the accountant in its audit report for the school's most recently completed fiscal year expressing substantial doubt about the school's ability to continue as a "going concern," or a disclaimed or adverse opinion.

*Beginning with the 1995-96 award year, a school's compliance audit is due within six months of the end of the school's fiscal year.

Beginning with the 1995-96 award year, most schools are not required to maintain a cash reserve fund for the payment of refunds as was required for the 1994-95 award year. Instead a school is considered to have sufficient cash reserves to make refunds if, for the past two years, the school has been financially responsible and has paid all required refunds on time. If a school has not demonstrated financial responsibility, the school is required to post a letter of credit in accordance with the letter of credit exemption to the general financial responsibility standards discussed below. If a school has not paid refunds on time, the school must post a letter of credit equal to 25% of the SFA refunds it was required to make for the past year.

Type-specific standards

In addition to the general standards of financial responsibility, a school must meet the requirements specific to the school type (for-profit, nonprofit, or public), as explained below. In lieu of meeting these specific standards, a school may demonstrate that it has a superior bond rating, as defined in regulations.

A for-profit school is financially responsible if it demonstrates...	✦ an "acid test" ratio of at least 1:1, ✦ a positive tangible net worth, AND ✦ no operating losses over either or both of its two latest fiscal years that total more than 10% of the school's total net worth
A nonprofit school is financially responsible if it demonstrates...*	✦ an "acid test" ratio of at least 1:1, AND ✦ a positive unrestricted current fund balance or positive unrestricted net assets, **OR** not had an excess of current fund expenditures over current fund revenues over both of its two latest fiscal years that total more than 10% of either the unrestricted current fund balance or the unrestricted net assets
A public school is financially responsible if it demonstrates...	✦ liabilities backed by the full faith and credit of a State, or by an equivalent governmental entity, ✦ a positive current unrestricted fund balance if reporting under the Single Audit Act, OR ✦ a positive unrestricted current fund in the State's Higher Education Fund ***OR,** if it submits to the Department a statement from the State Auditor General that the school has met all of its financial obligations during the past year, and that it continues to have sufficient resources to meet all of its financial obligations.*

*To demonstrate its compliance with the financial responsibility standards, a nonprofit school must prepare a classified statement of financial position in accordance with generally accepted accounting principles or provide the required information in notes to the audited financial statement.

Performance and affiliation standards

A school's financial responsibility is also evaluated based on the past performance of the school and persons affiliated with the school. A school is not financially responsible if a person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an SFA program violation, or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an SFA program violation, unless that person, family member, institution, or servicer is making payments in accordance with an agreement to repay the liability.

[redacted]

Substantial Control — Direct or indirect control over at least 25% ownership interest (either alone or with family members); representation (under voting trust, power of attorney, or proxy) of a person who individually or with a group has at least 25% ownership interest; status as CEO or other executive officer or member of a board of directors of an entity holding at least 25% ownership interest.

Ownership Interest— A share of the legal or beneficial ownership or control of, or a right to share in the proceeds of the operation of, a school or a school's parent corporation; including (but not limited to) sole proprietorship, interest as tenant, partnership, or interest in a trust.

[redacted]

Substantial control/ financial guarantees

The Secretary can require financial guarantees from the owners of a school or from other persons with substantial control over the school. The same persons may be required to assume personal liability for financial losses to the Federal government and students, and for civil/criminal monetary penalties authorized under the HEA of 1965, as amended.

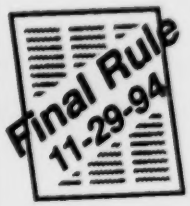
Such financial guarantees will not be required for a school that—

- has not been subject to a limitation, suspension, or termination action by the Department or a guaranty agency in the last five years,
- has not had, in the last two SFA program reviews or audits, findings that required a repayment of more than 5% of its SFA funds for any year,
- has not failed to resolve any compliance problems identified in program reviews or audit reports,
- meets, and has met for the last five years, the financial responsibility requirements given above, and
- has not been cited during the last five years for failing to submit audits as required under the HEA of 1965, as amended.

EXCEPTIONS TO FINANCIAL RESPONSIBILITY STANDARDS. If a school does not meet the general, type-specific, or performance and affiliation standards of financial responsibility (as discussed above), it may still be financially responsible if it meets one of the following exceptions.

Exception to cash reserve requirement

Cash reserve requirement (25% letter of credit): A school that has not paid refunds on time does not have to post a letter of credit equal to 25% of the SFA refunds it was required to make for the past year, if the Department determines that the State in which the school is located (and is legally authorized to operate) has a tuition recovery fund that ensures that the school is able to pay all required refunds, the fund is acceptable to the Department, and the school contributes to the fund. A school is also exempt from the 25% letter of credit requirement if the school has its liabilities backed by the full faith and credit of the State, or an equivalent government entity.



When a State submits a tuition recovery fund for evaluation by the Department, the Department will consider the extent to which the recovery fund—

- provides refunds to both in-State and out-of-State students,
- complies with SFA requirements for the order of return of refunds to sources of assistance, and
- will be replenished should any claims arise that deplete the fund.

Exception to general and type-specific standards

General and type-specific standards: A currently participating school that does not meet one or more of the general or the specific standards (excluding the cash reserve requirement) is still financially responsible if the school submits to the Department an acceptable irrevocable letter of credit equal to at least one-half of the SFA program funds received by the school during the last complete award year, or demonstrates (in accordance with the regulations) that the school has sufficient resources to ensure that it will not close precipitously.

Exception to acid test ratio

Acid test ratio: A school that does not meet the acid test requirement is still financially responsible if it provides a two-year or four-year associate or baccalaureate degree program and the school can demonstrate to the satisfaction of the Department that—

- There is no reasonable doubt as to its continued solvency and ability to deliver quality educational services,
- It is current in its payment of all current liabilities, including student refunds, repayments to the Department, payroll, and payment of trade creditors and withholding taxes, and

- It has substantial equity in school-occupied facilities, the acquisition of which was the direct cause of its failure to meet the acid test ratio requirement.

Exception to substantial control standard

Substantial control: A school that does not meet the requirement that persons who exercise substantial control over the school may not owe a liability for an SFA program violation is still financially responsible if the school—

- notifies the Department that the person repaid to the Department an acceptable portion of the liability, in accordance with the regulations,
- notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department, or
- demonstrates why the person(s) who exercise substantial control should nevertheless be considered to lack that control.

Audited financial statement required

A school's audited financial statement must cover the school's two most recently completed fiscal years. In addition to a school's financial statements, the Department may request that the school submit additional information, such as submission of or access to the accountant's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, it can require a school to submit an audited financial statement more frequently than once a year.

A school that has an audit performed under the Single Audit Act (an A-133 audit, or an A-128 audit) may submit its financial statement to the Department in accordance with the requirements for that particular audit. (For details on these audits and related requirements, see Section Seven of this Chapter.)

Fidelity bond coverage

In the past, schools were required to maintain fidelity bond coverage for its employees. This is no longer a Federal requirement for schools that participate in the SFA programs. However, some schools are still required to maintain fidelity bond coverage because State laws require it. Even if it is not required to do so, a school may choose to maintain fidelity bond coverage to protect itself when losses occur resulting from a lack of integrity, honestly, or fidelity on the part of the school's employees or officers.

Changes in control

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control could call into question the school's financial responsibility. For more information, see Section Ten of this Chapter.

STANDARDS OF ADMINISTRATIVE CAPABILITY

As directed in the law, the Secretary has developed procedures and requirements concerning the assessment of a school's administrative capability, taking into consideration the school's past SFA-related performance and recordkeeping.

Coordination of aid

An eligible school must designate a capable individual* to administer the SFA programs and to coordinate aid from these programs with the school's other Federal and nonFederal student aid programs. The school's administration must be coordinated in such a way that all the information it receives concerning a student's SFA eligibility —from any school office— is communicated to the financial aid administrator. To properly package and most effectively use the various types of student assistance (Federal, school, State, private, etc.), a financial aid administrator must be aware of all sources of aid at the school, and be able to coordinate with all financial aid programs a school offers to ensure that a student's aid does not exceed his or her need.

Consistency of student information

The school must have a system of identifying and resolving discrepancies in the SFA-related information received by various school offices. Such a system would include a review of all financial aid and need analysis documents, Statements of Educational Purpose and Registration Status, Federal and State income tax forms, and documents relating to admissions, citizenship, and previous educational experience. For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application, and are counted as a resource for the campus-based programs and estimated financial assistance for the FFEL programs. As another example, the school's admissions or registrar's office must provide the financial aid office with any information that it has affecting a student's eligibility—the student's enrollment in an ineligible program, for instance, or past educational experience.

OIG referrals

If the school finds that a student may have engaged in fraud or other criminal misconduct in applying for SFA funds, it must refer this information to the Department's Office of Inspector General (OIG), which will in turn notify other officials as appropriate. (Please note that this requirement does not preclude the school from notifying other law enforcement agencies as necessary.) Some examples of fraudulent

*An individual is "capable" if he or she is certified by the State (in which the school is located), if State certification is required. Other factors include the individual's successful completion of SFA program training provided or approved by the Department, and previous experience and documented success in SFA program administration.

information: the use of false identities, forgery of signatures or certifications, and false claims of income, citizenship, or independent student status.

Counseling

The school must provide adequate financial aid counseling to all enrolled and prospective students and their families. Counseling must include, at a minimum, information about the source and amount of each type of aid offered, the method by which aid is determined and disbursed or applied to a student's account, and the rights and responsibilities of the student associated with the student's enrollment and receipt of financial aid. This information should include a description of the school's refund policy, satisfactory progress standards, and any other conditions or factors that may affect the student's aid package. The school must also provide entrance and exit counseling for student borrowers in the Perkins, Federal Stafford, and Federal Direct Loan programs. (See Section Nine of this Chapter, and Chapters Six and Ten of this *Handbook* for further information on exit counseling.)

Adequate staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional, paraprofessional, and clerical personnel. An "adequate" staff depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be completely insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate.

Separation of function

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure its administrative procedures for the SFA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of *authorizing payment* and *disbursing or delivering funds* so that no one person or office exercises both functions for any student receiving SFA funds. Small schools are not exempt from this requirement, even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization **and** disbursement.

An eligible school must also have a policy to measure the academic progress of its students, according to the elements of a reasonable standard of satisfactory progress as provided in the regulations. See Chapter Two of this *Handbook* for an overview of satisfactory progress.

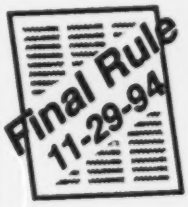
In addition, a school is not administratively capable when—

High default rates

- ✦ the cohort default rate for Perkins loans made to students for attendance at the school exceeds 15%.*

- ✦ the cohort default rate for Stafford or SLS loans made to students for attendance at the school equals or exceeds 25% for three consecutive years. (See Chapter Ten of this *Handbook* for details.)

If a school is not administratively capable because of a high default rate *only*, the Department will provisionally certify the school. A school may appeal this loss of full participation under the procedures for appealing lost FFEL participation due to a high default rate. (See Chapter Ten for more details.)



Prior to the 1994-95 award year, all schools had to have an undergraduate withdrawal rate for regular students of no more than 33% in order to be administratively capable (prior to the 1994-95 award year, the withdrawal rate was used as an **indicator** of administrative capability, not as an absolute standard). Beginning with the 1995-96 award year, the 33% withdrawal rate is applicable only to new schools (schools that seek to participate in an SFA program for the first time). In addition, the withdrawal rate requirement has been changed to require all new schools to report their withdrawal rates for an award year period, rather than for an academic year period.

Calculating the withdrawal rate

As in the past, when calculating the withdrawal rate, all regular, enrolled students must be included. The definition of "enrolled" does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, or is expelled from the school or receives a refund of 100% of their tuition and fees (less any permitted administrative fee). Students who withdraw from one or more courses or programs, but do not withdraw entirely from the school, do not meet the definition of "withdrawn." Note that the 33% withdrawal rate applies to all enrolled, regular students—not just to SFA recipients.

Enrolled— a student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

* A school with a Perkins cohort default rate that equals or exceeds 15% must develop and implement a default reduction plan. See Chapter Six, Section Eight of this *Handbook*.

Default management plan required

As a part of the Default Reduction Initiative (regulations published June 5, 1989 and April 29, 1994), schools whose Federal Stafford/SLS default rate **exceeds 20% (but is less than 40.1%)** are required to implement a default reduction plan that is in accordance with 34 CFR part 668, Appendix D of the General Provision regulations (or a similar plan, with Departmental approval). Schools with a default rate that **exceeds 40%** must implement **all** Appendix D default reduction measures within 60 days of notification from the Department that the school's cohort default rate exceeds 40%. New schools are required to develop a Default Management Plan prior to certification. (See Chapter Ten of this *Handbook* for more information on default requirements.)

Loss of FFEL eligibility

Additionally, for FY 1994 and subsequent fiscal years, schools with default rates that equal or exceed 25% for three consecutive years will not be eligible to participate in the FFEL programs (schools may appeal).

DEBARMENT AND SUSPENSION CERTIFICATION. Debarment and suspension requirements are also a part of the administrative capability standards. Before it can receive Pell Grant or campus-based funding, a school must certify that neither the school nor its employees have been debarred or suspended by a Federal agency. This certification is on the PPA and, for schools participating in the campus-based programs, is included on ED Form 80-0013, which is a part of the FISAP package mailed to schools each summer.

Debarment of school or its principals

If the school or its principals have been suspended or debarred by one Federal agency, the school is no longer eligible to participate in *any* SFA program. The *principals* of the school include the owners, the directors, officers, partners, employees or any other person with primary management or supervisory responsibilities. A principal can also be someone who is not employed by the school, but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or campus-based funds).

If a school discovers that a person employed in a "primary management or supervisory capacity" has been suspended or debarred by a Federal agency, the school must remove that person from such a position or risk losing its SFA eligibility.

Checking prospective employees or contractors

To protect itself, a school might ask prospective employees and contractors about previous debarment or suspension, either in person or on a written application. A school may also call the Institutional Participation Division (IPD) to find out if an individual or organization is on the Nonprocurement List. (The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's SFA eligibility, so long as that person is not involved in any covered transactions.)

A school must not enter into *lower-tier covered transactions* with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service, or with a loan collection or billing agency. A school must obtain a certification from any "lower-tier" organizations if the amount of the lower-tier transaction is $25,000 or more. (The required certification clause is given on pg. 25 of Dear Colleague Letter GEN-89-21.) It is the responsibility of the lower-tier organization to inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

"Lower-tier covered transactions"

The Department published a Notice of Proposed Rulemaking (NPRM) on December 20, 1994 (with public comments due by February 21, 1995) that proposes to make changes to the debarment and suspension procedures as follows—

Proposed changes to debarment and suspension provisions

- To reflect changes made by the Higher Education Amendments of 1992, the NPRM proposes that the Department, in determining an entity's eligibility to participate in a Title IV, HEA program, take into consideration only debarment and suspension actions that have been imposed under procedures that provide due process protections equivalent to those afforded under Subpart G of the General Provisions and the Federal Family Education Loan programs.

- The NPRM proposes to apply similar debarment and suspension procedures to debarments and suspensions of lenders or loan servicers under the FFEL program.

- The NPRM proposes to make a governmentwide debarment or suspension of a school or third-party servicer mandatory grounds for termination or suspension.

- Finally, the NPRM proposes that whenever a school, lender, or third-party servicer is suspended under the governmentwide debarment and suspension provisions, the Department determine whether an emergency action should be taken against the entity.

CONTRACTS WITH THIRD-PARTY SERVICERS

New requirements

Section 668.25 of the General Provisions regulations published April 29, 1994, added new requirements for all participating institutions that contract with third-party servicers. These requirements were effective July 1, 1994. As defined by regulation, a *third-party servicer* is a individual or organization that enters into a contract (written or otherwise) with an school to administer any aspect of the institution's SFA participation.

Examples of functions that are covered by this definition include—

Activities included in "servicer" definition

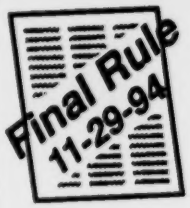
- processing student financial aid applications, performing need analysis, and determining student eligibility or related activities,
- certifying loan applications, servicing loans, or collecting loans,
- processing output documents for payment to students, and receiving, disbursing, or delivering SFA funds,
- conducting required student consumer information services, and
- preparing and certifying requests for advance or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP).

Examples of functions that are not covered by this definition include—

Excluded activities

- performing lock-box processing of loan payments,
- performing normal electronic fund transfers,
- publishing ability-to-benefit tests,
- performing functions as a Multiple Data Entry Processor (MDE),
- financial and compliance auditing,
- mailing documents prepared by the institution, or warehousing institutional records, and
- providing computer services or software.

The November 29, 1994 final regulations clarified that an employee of a school is **not** a third-party servicer. For this purpose, an **employee**—



- works on a full-time, part-time, or temporary basis,
- performs all duties on site at the school under the supervision of the school,
- is paid directly by the school,
- is not employed by or associated with a third-party servicer, and
- is not a third-party servicer for any other school.

Definition of "employee"

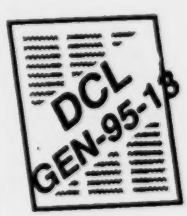
A school can only contract with an eligible third-party servicer, as determined by specific regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to SFA program administration to the Department's Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make required refunds. If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return all applicable SFA funds and related records to the school.

Eligible servicer; applicable requirements

Although an eligible servicer is responsible for meeting all these and other requirements, the school remains liable for any and all SFA-related actions taken by the servicer on its behalf, under the terms of the contract.

School is liable

In January 1995, the Department requested that all schools provide the Department with the following information for each third-party servicer with which the school contracts: name, address, employer identification number, telephone number, fax number, and Internet address.



Schools are not required to provide copies of the actual contracts with third-party servicers until the school applies for recertification, or the Department specifically requests the school to submit the contracts.

The requested information was to be submitted to the Department by March 31, 1995. If your school has not submitted this information to the Department, it must do so immediately. If a school has submitted information regarding its third-party servicers as part of an application for certification or recertification, no additional submission is required. Also, a school is not required to notify the Department if it does not contract with any third-party servicers.

Must report contracts

Schools are also required to notify the Department if the school enters into a new contract with a third-party servicer, significantly modifies a contract with an existing third-party servicer, the school or one of its third-party servicers terminates a contract, or a third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy. Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within ten days of the date of the change or action.

When submitting information on third-party servicers to the Department, a school must display its OPEID (the institutional identifier found on the eligibility or approval letter establishing its HEA eligibility) on the upper right side of the transmittal.

The information should be sent to one of the following addresses:

If by mail...	U.S. Department of Education Institutional Participation Division ATTN: Third-Party Servicer Team 600 Independence Avenue, S.W. Washington, D.C. 20202-5323
If by overnight mail or courier delivery...	U.S. Department of Education Institutional Participation Division ATTN: Third-Party Servicer Team 7th and D Streets S.W. GSA Building Room 3030 Washington, D.C. 20024
If by fax ...	(202) 260-6107 ATTN: 3rd PSTeam
If by Internet ...	serve@sfa.ope.ed.gov

ADMINISTRATIVE COST ALLOWANCE

Federal Pell Grant allowance

The Department pays an administrative cost allowance (ACA) to schools to offset some of the administrative costs related to the Pell Grant, campus-based, and Direct Loan programs. As defined in regulation, the Pell Grant program ACA is $5.00 for each Pell Grant recipient at the school (calculated by the Department, based on the number of Pell Grant recipients reported by the school). Schools are notified of their Pell Grant ACA by mail, three times during the processing year. The Pell Grant allowance is paid directly to the school by the U.S. Treasury. (For more information, see Chapter Four of this *Handbook*.)

Campus-based allowance

A school calculates its own campus-based program ACA in its annual Fiscal Operations Report and Application to Participate (FISAP), based on a percentage of its campus-based expenditures in the previous award year (see Chapter Five of this *Handbook*). Unlike the Pell Grant ACA procedures, the school must draw down the campus-based ACA from the ED Payment System. (A school may use up to 10% of the FWS-based ACA for expenses incurred for its community service program.)

Direct Loan allowance

For schools that originate loans under the Direct Loan program, the ACA is $10.00 for each Direct Loan borrower for schools that print the promissory notes, and $7.00 for each Direct Loan borrower for schools that do not print the promissory notes.

SPECIAL REQUIREMENTS FOR SCHOOLS AWARDING ATHLETICALLY RELATED FINANCIAL AID

As discussed earlier in this section, the Higher Education Amendments of 1992 added language to the PPA concerning additional administrative requirements for institutions offering athletically related financial aid.

Athletically related student aid — any scholarship, grant, or other form of financial assistance, the terms of which require the recipient to participate in a program of intercollegiate athletics at the school in order to be eligible to receive such assistance.

Participating schools must compile an annual report, within six months of the end of each fiscal year, that provides the following figures—

- total school revenues earned from intercollegiate athletics,
- revenues earned from each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined,
- total expenses of intercollegiate athletics,
- expenses for each of the following sports: football, men's basketball, women's basketball, other men's sports combined, and other women's sports combined, and
- total revenues and total operating expenses of the school.

Revenue— Includes, but is not limited to, gate receipts, broadcast revenues and other conference distributions, appearance guarantees and options, concessions, and advertising (student activity fees, alumni contributions, and investment income not allocable to a sport may be counted in total revenues only).

Expenses— Includes grants-in-aid, salary and payroll, travel costs, equipment and supply purchases (general and administrative overhead costs may be counted in total expenses only).

The school's reports must be independently audited every three years, and the information contained in both the report and the audits must be made available to the Secretary and the public. At this time, schools are not required to submit this information to the Department.

ANTI-DRUG ABUSE REQUIREMENTS

The HEA of 1965, as amended, requires a school to certify to the Department that it operates a drug abuse prevention program that is accessible to its students, employees, and officers. Two other laws have added related requirements for postsecondary schools that receive SFA funds.

The Drug-Free Workplace Act of 1988 (P.L. 101-690) requires a *Federal grant recipient* to certify that it provides a drug-free workplace. Because a school applies for and receives its campus-based allocation directly from the Department, the school is considered to be a "grantee" for purposes of the Act. Therefore, to receive campus-based funds, a school must complete the certification on ED Form 80-0013, which is part of the FISAP package (the application for campus-based funds). This certification must be signed by the school's CEO, or other official with authority to sign the certification on behalf of the entire institution.

The certification lists a number of steps that the school must take to provide a drug-free workplace, including —

Requirements for a drug-free workplace

- establishing a drug-free awareness program to provide information to employees,
- distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

The school's ACA may be used to help defray related expenses, such as the cost of printing informational materials given to employees.

Scope of drug-free workplace

The drug-free workplace requirements apply to all offices and departments of a school that receives campus-based funds. Organizations that contract with the school are considered "subgrantees" — only grantees are subject to the requirements of the Drug-Free Workplace Act.

Information to be distributed to students

The Drug-Free Schools and Communities Act (P.L. 101-226) requires a school to certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification, a school usually will only submit this new certification to the Department once. (An exception would be a school that changes ownership.)

The drug prevention program adopted by the school must include annual distribution to all students and employees of information concerning drug and alcohol abuse as described above, except that these steps must be taken by schools that receive *any Federal funding* and must include the school's *students* as well as its employees. The information that must be distributed is more specifically described in Section Nine of this Chapter.

Developing a drug prevention program

A school must review its drug prevention program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. The development of a drug prevention program, although it is a condition for SFA funds, is usually an enterprise that is undertaken by the school administration at large, not by the financial aid office. The regulations originally published on this topic (August 16, 1990) were mailed to participating schools at the time; they offer a number of suggestions for developing a drug prevention program. Also, several organizations that can serve as resources are listed on the facing page.

Measuring the effectiveness of the program

The effectiveness of a school's drug prevention program can be measured by tracking—

- The number of drug- and alcohol-related disciplinary actions,
- The number of drug- and alcohol-related treatment referrals,
- The number of drug- and alcohol-related incidents recorded by campus police or other law enforcement officials,
- The number of drug- and alcohol-related incidents of vandalism,
- The number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse, and
- Student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in SFA programs. (See the regulations for details on Department sanctions and appeals procedures available to the school.)

Additional Sources of Information

The August 16, 1990 regulations list the following resources for schools that are developing drug prevention programs.

✆ *The National Institute on Drug Abuse Hotline.*

Information and referral line that directs callers to treatment centers in the local community. (1-800-662-HELP)

✆ *The National Institute on Drug Abuse Workplace Helpline.*

A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line.
(1-800-843-4971)

✆ *The National Clearinghouse for Alcohol and Drug Information.*

Information and referral line that distributes Department of Education publications about drug and alcohol prevention programs as well as material from other Federal agencies. (1-301-468-2600)

✆ *The Network of Colleges and Universities Committed to the Elimination of Drug and Alcohol Abuse.*

Established in 1987 as a joint effort of the Department and the higher education community to develop a response to alcohol and other drug problems on campus, including a set of standards for education programs, assessment techniques, and enforcement procedures. Information can also be provided about training and conferencing activities, and regional members of the network. (202-219-2265)

✆ *Department of Education Regional Centers Drug-Free Schools and Communities.*

Assist schools and other entities in developing prevention programs by providing training and technical assistance. (Northeast Region, 516-589-7022; Southeast Region, 502-588-0052; Midwest Region, 708-571-4714; Southwest Region, 405-325-1454; Western Region, 503-275-9480)

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

In accordance with P.L. 101-121 (and regulations published December 20, 1989), school receiving more than $100,000 for campus-based programs must provide the following to the Department for each award year—

Forms required for schools with campus-based allocation over $100,000

- ***Certification Form*** (Combined with Debarment and Drug-Free Workplace certifications, ED-80-0013) The school will not use Federal funds to pay a person for lobbying activities in connection with Federal grants or cooperative agreements. This certification must be renewed each year for your school to be able to draw down campus-based funds.

- ***Disclosure Form*** (Standard Form LLL) If the school has used *nonFederal* funds to pay a noninstitutional employee for lobbying activities, it must disclose these lobbying activities to the Department. The school must update this disclosure at least quarterly, when changes occur.

Both of these forms are sent to schools with the campus-based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the Chief Executive Officer or other individual who has the authority to sign on behalf of the entire institution. Schools are advised to retain a copy in their files.

ACA may not be used for membership fees

This certification primarily covers the use of the campus-based ACA. Schools may not use the ACA to pay for their membership in professional associations (such as NASFAA, NATTS, AICS, or NACUBO), regardless of whether the association engages in lobbying activities. Association membership is not a legitimate administrative cost of the SFA programs.

The school is also responsible for payments made *on its behalf*, and must include the certification in award documents for any subgrantees or contractors (such as need analysis servicers, financial aid consultants, or other third parties paid from the ACA).

SECTION THREE: CASH MANAGEMENT

On December 1, 1994, the Department published regulations that govern a school's management of most SFA funds. These regulations are known as the "cash management" regulations. These regulations establish rules and procedures that a school must follow in requesting, maintaining, disbursing and otherwise managing funds under the Pell Grant, PAS, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs. For purposes of this discussion *SFA funds* refers only to these SFA programs.

Previously, most cash management requirements were found in the individual SFA program regulations or various Department publications. The December 1, 1994 regulations consolidated many of these requirements and added new requirements for proper handling of SFA funds. This section will highlight the provisions of these new regulations. However, a school is still responsible for following other cash management rules and procedures specific to an SFA program.

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion on page 3-46.

Third-party servicers

As in the past, the SFA funds received by a school are intended solely for the use of student beneficiaries, except for funds received as an administrative cost allowance, which are intended as a payment to the school. (See the Administrative Cost Allowance discussion on pg. 3-49.) All other funds are held in trust by the school for students and for the Department. SFA funds cannot be used as collateral or for any other purpose.

REQUESTING FUNDS

The December 1, 1994 regulations include provisions for requesting SFA funds from the Department that are based on longstanding Department policy.

The Department provides SFA funds to a school either by the "advance payment method" or the "reimbursement payment method."

Advance payment method

Under the advance payment method, the Department accepts a school's request for funds and transfers the amount requested to a bank account designated by the school. The school cannot request more cash* than is needed to make disbursements to students within three business days. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school received those funds.

Reimbursement payment method

Under the reimbursement method, a school must disburse funds to eligible students before requesting funds from the Department. The school cannot request more cash than the amount that was actually disbursed to those eligible students. Before approving a school's request for funds, the Department ensures that the school has determined properly the SFA eligibility of each student, made correct SFA payments to the students included in its request, and submitted any documentation required by the Department to support its request.

FFEL/Direct Loan EFT

In certifying a loan application for a borrower who is not subject to delayed disbursement provisions, a school may not request that a lender provide by EFT or master check the loan proceeds for that borrower earlier than 13 days before the first day of a student's enrollment period. While the regulations speak to the first day of the enrollment period, for subsequent disbursements of Direct Loan or FFEL program loans, it is expected that schools will not request that a lender provide the loan proceeds earlier than 13 days before the first day of a semester, term, or other period of enrollment for which the disbursement is intended.

*A "request for cash" is a solicitation for cash in accordance with procedures contained in the *Recipient's Guide for the Department of Education Payment Management System.*

MAINTAINING FUNDS

Account for Federal funds

All schools must maintain a bank account into which the Department transfers, or the school deposits, Federal funds (other than FFEL program funds) that the school receives from the SFA programs. The name of the account must clearly disclose that Federal funds are deposited into that account, **or** the school must notify the bank of the accounts that contain Federal funds and keep a copy of this notice in its records.*

UCC-1 statement

Regardless of which option a school chooses, the school is required to file a UCC-1 statement that discloses that the account contains Federal funds with the appropriate State or municipal government entity. An example of an UCC-1 form can be found on page 3-64. The school must keep a copy of this statement in its records.

Interest-bearing or Investment account

Except in the cases listed below, this account must be an interest-bearing account or an investment account. An interest-bearing account must be Federally insured or secured by collateral of value reasonably equivalent to the amount of SFA funds in the account. An investment account must consist predominately of low-risk income-producing securities. If a school chooses to maintain Federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Interest must be remitted to the Department

This interest-bearing account or investment account is a temporary holding account for SFA funds. Therefore, any interest earned on SFA funds (other than Perkins Loan funds) that exceeds $250 per year, must be remitted to the Department at least once a year. A school may keep up to $250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. A school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

* A school is not required to maintain a separate account for SFA funds unless the Department specifies otherwise.

Exceptions to interest-bearing account or investment account

A school is not required to maintain funds in a interest-bearing account or an investment account if—

- The school drew down less than $3 million from the SFA programs in the prior award year,
- The school earned less than $250 in interest on the total amount of SFA funds drawn down in the prior award year, or
- The school can demonstrate that it would not earn over $250 in interest on the total amount of SFA funds it will draw down.

A non-interest-bearing account must be Federally insured, or secured by collateral of value reasonably equivalent to the amount of SFA funds in the account.

Federal Perkins Loan Program participants

A school that participates in the Perkins Loan Program must **always** maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other Federal funds, the school may use one account for Perkins Loan funds and all other Federal funds. If the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

DISBURSING FUNDS

The December 1, 1994 regulations consolidate and add to existing requirements for disbursing SFA funds. These requirements apply to all the SFA programs specified at the beginning of this section, except for the FWS program. A school must continue to follow all applicable FWS disbursement procedures.

Disburse — to make a payment of SFA funds, or to deliver proceeds of an SFA loan to or on behalf of a student, directly or by crediting a student's account with SFA funds (posting payment of funds).

A school may not make a disbursement to a student for a payment period or period of enrollment until the student is enrolled in classes for that period.

The earliest a school may pay a student is 10 days before the first day of the payment period or period of enrollment. For subsequent disbursements of Direct Loan or FFEL program loans, the earliest a school may credit a student's account or pay the student directly is 10 days before the first day of a semester, term, or other period of enrollment for which disbursement is intended.

When an SFA disbursement occurs

It is important for a school to understand when the crediting of Federal student aid to a student's account will result in an SFA disbursement. Knowing this will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues. The Department considers a disbursement of SFA funds to have taken place by crediting a student's account only if—

- The crediting of the account is backed up with Federal funds. That is, the school has either drawn down Federal funds or used Federal funds it had in an account at the school such as funds from the school's Perkins Revolving Account or carryover funds from an earlier drawdown, or
- In the case of a school crediting a student's account with an award made under the Direct Loan program, the school reports a disbursement date to the Direct Loan servicer.

Early payments

Beginning with the 1995-96 award year, the regulations do not allow either of these events to occur any earlier than 10 days prior to the first day of the payment period or period of enrollment.

Any crediting to a student's account which occurs without either Federal funds being used or a disbursement date being set **is not a Federal**

disbursement. Therefore, a school may credit a student's account with award amounts from SFA programs earlier than 10 days prior to the beginning of the payment or enrollment period as long as Federal funds are not used and a Direct Loan disbursement date is not established. A Federal disbursement will have occurred on the day that Federal funds are taken to support the credit or on the date established as the disbursement date for Direct Loan purposes.

Note that if a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not release the first installment of his or her loan until 30 days after the student's first day of classes.

Crediting a student's account

A school may disburse SFA funds to a student by **crediting a student's account** for **allowable charges**. (Note that a school may not apply SFA funds to charges assessed the student in a prior award year or period of enrollment.) Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized by the student.

Allowable charges — Includes tuition and fees, board (if the student contracts with the school), room (if the student contracts with the school), other cost-of-attandance charges (if the school obtains the student's or parent's authorization), and other school charges that a student incurs at his or her discretion (if the school obtains the student's or parent's authorization).

A school must notify a student (or parent borrower) of the amount of SFA funds the student can expect to receive, and how and when those funds will be paid. The school must also notify a student (or parent borrower) in writing whenever the school credits the student's account with Direct Loan or FFEL program funds.

SFA credit balance

For the 1995-96 award year, if there are SFA funds that exceed a student's allowable charges, a school must pay the excess SFA funds directly to the student within 21 days of the later of—

- the date the balance occurs on the student's account,
- the first day of classes of the payment period or period of enrollment, or
- the date the student rescinds his or her authorization for the school to retain funds in excess of the amount needed to cover allowable charges.

For the 1996-97 award year and beyond, this period of time will decrease from 21 days to 14 days.

Funds are disbursed "directly" by one of three methods—

- A school may make a payment by check* (or other means of payment) that is payable to and requires the endorsement of the student (or parent borrower),
- A school may initiate an electronic funds transfer (EFT) to a bank account designated by the student (or parent borrower), and
- A school may pay the student in cash, provided that the school obtains a signed receipt from the student.

EFT

Beginning with the 1995-96 award year, a school may make an EFT payment to a student. A school must obtain voluntary authorization from the student (or parent borrower) to disburse by the EFT method into a bank account designated by the student or parent.

Holding student funds

If a school receives authorization from the student to hold excess student funds, the school must identify the student and the amount of funds the school holds for the student in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. The school is permitted to retain any interest earned on the student's funds. A school may not hold excess funds for any student if the Department determines that the school has failed to meet the financial responsibility standards under §668.15 of the Student Assistance General Provisions regulations.

Student or parent authorization

In obtaining authorization from a student (or parent borrower) for disbursing SFA funds by EFT, using SFA funds to pay for other charges, or holding excess funds, a school may not *require* the authorization, and must allow the student or parent to rescind the authorization at any time. An authorization is valid for the award year or period of enrollment in which the authorization is obtained. This authorization continues to be valid in subsequent award years if the school notifies the student or parent prior to performing a function that requires continued authorization in the subsequent award year. The notification must clearly explain those functions for which continued authorization is necessary (including what will happen to any interest that the school earns on the student's funds) and provide the student or parent with an opportunity to cancel or modify the provisions of the authorization.

EXCESS CASH

"Excess cash" is any amount of SFA funds (other than FFEL or Perkins funds) that a school does not disburse to students by the end of the third business day following the school's receipt of those funds. Excess cash must be returned to the Department immediately. However, under certain circumstances, a school may maintain an excess cash balance for up to seven days.

Allowable excess cash tolerances

For a period of peak enrollment (see below) at the school during which a drawdown* of excess cash occurs, the school can maintain the excess cash balance in its Federal account if the excess cash balance is less than **3%** of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

$$\frac{\text{Number of students who started classes in the same 30 day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}}$$

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than **1%** of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA funds to students for at least the amount of that balance.

If a school does not have prior-year drawdown data for the Direct Loan program because it did not participate in the Direct Loan program for that prior award year, the school may include, for the latest year for which the Department has complete data, the total amount of loans guaranteed under the FFEL program for students attending the school during that year in determining total prior-year drawdowns.

*A "drawdown" is a process whereby a school requests and receives SFA funds.

Consequences for improperly maintaining excess cash balances

The Department reviews schools to determine where excess cash balances have been improperly maintained and to seek recovery from those schools of the resulting losses to the government.

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. In addition, where excess cash balances are disproportionately large to the size of the school or represent a continuing problem with the school's responsibility to administer efficiently the SFA programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA programs. (For more on fines and other actions against schools, see Section Ten.)

Generally, a check is "issued" when the school releases, distributes, or makes available the check by mailing the check to the student or parent (if applicable), or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.

UNIFORM COMMERCIAL CODE

FINANCING STATEMENT

For Filing Officer Use
File No. .....
Date & Hour .....

Check below if goods are or are to become fixtures.

☐ TO BE RECORDED IN LAND RECORDS

This Financing Statement is presented to a filing officer for filing pursuant to the Uniform Commercial Code.

Maturity date (if any)

Name(s) of Debtor(s) or assignor(s) (Last Name First) — No. — Street — City — State

Owner, President, CEO, etc.

Name of Secured Party or assignee — No. — Street — City — State

U.S. Department of Education, 600 Independence Ave, SW, Washington, DC 20202

1. This financing statement covers the following types (or items) of property: (Lists or descriptions may be on separate sheets firmly attached hereto.) (Describe)

Account Name, Account Number
Name of Financial Institution
Address of Financial Institution

Note: This account contains Federal funds.

RETURN TO:

(If affixed to realty—state value of each article)

CHECK ☒ THE LINES WHICH APPLY

2. ☐ If collateral is crops: The above described crops are growing or will be grown on: (Furnish general description of real estate and name of record owner).

3. ☐ If collateral is goods which are or will become fixtures: The above described goods are fixed or will be affixed to: (If affixed to realty—state value of each article.) (Furnish general description of real estate and name of record owner.) If blocks system is maintained, state house number and street, if there be any, or block reference.

4. ☐ Proceeds of collateral are also covered: ☐ Products of collateral are also covered:

5. (This section applicable in Maryland only.) STRIKE OUT INAPPLICABLE WORDING
The underlying secured transaction(s) being publicized by this Financing Statement *is* / *is not* subject to the Recordation Tax imposed by Tax—Property Article §§12-102, 103 annotated Code of Maryland, as amended. If subject, the principal amount of the debt is

Debtor(s) or assignor(s)

Signature _____ Name of Institution _____ (Seal)
(Corporate, Trade or Firm Name)

_____ _____
Signature of *Secured Party* or Assignee

_____ _____
(Type or print name under signature) (Owner, Partner or Officer and Title)
(Signatures must be in ink)

*ED is not required to sign this form.

SECTION FOUR: FINANCIAL AID TRANSCRIPT

Generally, when a student transfers from one school to another, the new school must receive a financial aid transcript from the previous schools the student has attended before it disburses Federal Pell Grant, Direct Loan, FFEL, or campus-based funds to the student or certifies a Federal PLUS loan application. Exceptions to this rule are discussed later in this section.

Purpose of the transcript

The information on the financial aid transcript is needed to monitor two aspects of student eligibility. First, the transcript tells the aid administrator how much aid a transfer student has received from the SFA programs at other schools. By using the transcript, the aid administrator can make sure that the student does not receive an overpayment. Most of the SFA programs have annual maximum limits; the loan programs also have cumulative maximum limits, as discussed in Chapter Two of this *Handbook.** Second, the transcript is used to prevent a student from receiving any SFA aid if he or she is in default or owes a repayment on an SFA grant or loan.

REQUESTING A TRANSCRIPT

Finding out if the student has attended other schools

The current school must determine if a student who applies for aid from the SFA programs previously attended other eligible schools. The school must make an "active effort" to find out if the student previously attended other schools. For instance, most schools routinely ask prospective students to state their previous academic experience, either in the course of an admissions interview, or on the school's application. The financial aid administrator is responsible for ensuring the "consistency of information" at the school regarding a student's eligibility (see Section Two of this Chapter), and therefore must have a system to exchange such information with the admissions office.

*Loan limits are also discussed in Chapters 6 and 10 of this *Handbook*.

If the school discovers that the student did attend another eligible school, it must obtain a financial aid transcript from that school (or schools, if the student attended more than one eligible institution). The financial aid transcript must be sent directly from the previous school to the current school (not to the student). The student may request that a transcript be sent, or the current school may make the request. In either case, the current school must document that a request was made. (Neither the school nor the student is required to request a transcript from a foreign school.)

If it appears that the student's previous school has since closed, the current school can request the Department's assistance by writing to the following address:

Student Financial Aid Information Center
Financial Aid Transcript Request
P.O. Box 4129
Iowa City, IA 52244

The current school will receive one of the following responses from the Department's SFA Information Center—

- No transcript is required for this student, because the school has closed, is no longer eligible to participate in the SFA programs, or does not appear to be actively participating in the SFA programs,

- The transcript must be requested directly from the school, which is currently in operation and is participating in the SFA programs (the school's current name and address will be included in this response), or

- The request did not provide the needed information; the school must resubmit the request, providing the name of the student, the name and address (city, state) of the previous school, and the specific years of attendance in question.

If no transcript is required, either because the previous school is foreign, has closed, or does not participate in the SFA programs, the school must verify with the state guaranty agency (in all states in which the student previously attended schools) that the student in question has not defaulted on an SFA loan. Also, to prevent an overaward for the current award year, the school should secure the student's signed statement of the amounts of SFA that were awarded and disbursed to him or her for the current award year.

Pell and campus-based programs

Once the school has requested the financial aid transcript, it may pay the student under the Federal Pell Grant and campus-based programs for one payment period only. If a school exercises this option, after it receives the transcript it must make any necessary adjustments to the student's aid package before making another payment. The school is not liable for the amount of the first payment if it never receives the financial aid transcript (or if the transcript arrives and shows that the student is ineligible). However, the school may not make any subsequent payments to the student without receiving the transcript, and it must attempt to collect any overpayment from the student.

Federal Stafford

After requesting the transcript, the school may certify a Federal Stafford application for the student, but it may not release the proceeds from the loan until after the transcript is received. If the school does elect to certify a Federal Stafford loan application and then receives a financial aid transcript that shows the student to be ineligible for payment, the school must return the loan proceeds to the lender. In addition, please remember that the school may not hold the loan proceeds for more than 45 days — if the financial aid transcript(s) still have not arrived at the end of the 45 days, the school must return the loan proceeds to the lender.

PLUS

Under General Provisions Regulations, the school may not certify a Federal PLUS application until it has received the financial aid transcript(s).

Direct Loan

After requesting the transcript, the school may originate a Direct Loan award for the student, but it may not disburse funds to the student until the transcript is received.

Payment without transcript: no SFA funds received, records unavailable

In several cases, the regulations permit the school to pay a transfer student without receiving a financial aid transcript. The school may pay the student as usual if the previous school certifies that the student did not receive SFA funds, or that the record retention period for the student's period of attendance has expired and the previous school no longer has the student's records. (See Section Eight of this Chapter for recordkeeping requirements). The school may also pay without a transcript if it discovers that the previous school has closed and the requested information is not available, as discussed previously.

SENDING A TRANSCRIPT

Reasons for not sending transcript

When a school receives a request for a financial aid transcript, it must promptly provide the requested information on the transcript. If the student did not receive assistance from the SFA programs, or attended the school so long ago that the record retention period has lapsed and the school no longer has those records, the school must notify the requesting school in writing that a transcript will not be sent and specify the reason. (See Section Eight of this Chapter for recordkeeping requirements.)

Listing other schools attended

If the school sending the transcript has any information indicating that the student had attended any other schools, it must include the names of those schools on the transcript (or in the written response, if the school is not required to send a transcript). When the school requesting the transcript finds that the student has attended another school, it must also request a transcript from that school.

A school cannot withhold a financial aid transcript for a student who owes a debt to the school (such as unpaid tuition and fees, or a library fine or parking fine). However, the Department does not discourage the withholding of academic transcripts in compliance with applicable State laws.

Signature requirement

A financial aid transcript must be signed by the person the school authorizes to sign transcripts and other financial aid documents; it does not need to be certified. Using a signature stamp to validate transcripts is also acceptable, if the stamp's use is restricted to specific financial aid personnel. In either case, a school is liable for any inaccurate information provided. Note that a school may accept a telecopied version of the financial transcript, provided it is properly completed and signed.

REQUIRED INFORMATION ITEMS

Required items

The transcript must include—

- *The student's name and social security number.*
- *Whether the student is in default on an NDSL, or Perkins Loan, or owes a repayment on a Federal Pell Grant or FSEOG at that school.* The school should always be able to tell from its own records if the student is in default or owes a repayment for any of these programs, if the student attended within the record retention period.

- *If known, whether the student owes a repayment on an SSIG or is in default on an FFEL at that school, or is in default on a Direct Loan or Consolidation Loan.* In many cases, the guaranty agency or the State agency for SSIG will have informed the school if the student is in default on a FFEL or Consolidation Loan, or owes a repayment on an SSIG obtained at that school.

- *The total amount of any loans received by the student under the Federal Perkins and NDSL programs at that school.*

- *Whether the student had an outstanding balance on an NDSL (either Defense or Direct) from that school on July 1, 1987.* This will affect whether the student can be considered a "new borrower" in the Federal Perkins Loan Program. New Perkins borrowers are given a 9-month grace period, rather than the 6-month NDSL grace period and are eligible for a deferment/cancellation for volunteer service in the Peace Corps.

- *The amount and period of each loan made to the student under the FFEL programs at that school.* This includes Federal PLUS loans taken out by the student's parents on the student's behalf.

- *The student's Scheduled Pell Grant and the amount of Pell Grant funds disbursed to the student for the current award year.*

SEOG

Schools do not have to report information on SEOG awards on the transcript because annual SEOG maximums apply only to the amount that the school may award, not to how much the student may receive.

Information about aid at other schools attended

When responding to a financial aid transcript request, a school is not required to include information about the amount of aid awarded at other schools or the student's default or overpayment status at other schools. However, as noted earlier, the school sending the transcript must list these other schools on the transcript, and the new school must make sure that it has received transcripts from those schools.

A school may decide to provide additional items of information such as types of work-study or cooperative education study performed, institutional scholarships awarded, or Federal Pell awards received in previous years. A school may also include in the transcript any information about a student's eligibility for, or receipt of, financial aid if the school considers that information useful to the school the student will be attending.

MODEL TRANSCRIPT

Although there is no official form for the required financial aid transcript, the National Association of Student Financial Aid Administrators has developed a financial aid transcript form that schools may use as a model (see following pages). Financial aid administrators may receive a copy by writing NASFAA, 1920 L Street, N.W., Suite 200, Washington D.C. 20036.

Part I

Part 1 of the transcript contains identifying information for the student and may be filled out either by the student or by the requesting (current) school. The student's signature is optional (however, the transcript must include the student's name and social security number).

Part II

Part 2 of the transcript gives the student's financial aid history, as completed by the financial aid office at the previous school. **Section A** gives information about other schools the student attended previously. **Section B** is used when the school is not providing the student's financial aid history, either because the student did not receive SFA funds at the school, or because the record retention period has expired and the records are no longer available. **Section C** contains several statements regarding the SFA funds received by the student, including outstanding loan balances, repayments owed, and defaults; the school should check all statements that are true for the student in question. **Sections D and E** are used to report amounts of aid received from the SFA programs. **Section F** is the signature block for the school sending the transcript.

FINANCIAL AID TRANSCRIPT

PART I: To be completed by the STUDENT.

Instructions: If you ever attended another postsecondary institution, you ***must*** complete Part I of this form and submit it to the Financial Aid Office of that institution. Federal regulations require that a Financial Aid Transcript request be sent to ***every*** institution you previously attended, regardless of whether you received aid to attend that institution.

Name _____ Social Security # _____
Last First M.I. Maiden

Name used at previous institution (if different from above) _____

Student's Address: _____

I request that the Financial Aid Office at

_____

which I attended from _____ to _____ provide the information requested in Part II to the institution shown to the left.

I ❑ did ❑ did not receive aid while a student at this institution.

Student's Signature (optional):

_____

(Fold here for window envelope)

PART II: To be completed by the STUDENT FINANCIAL AID OFFICE at the previous institution.

Complete either:
- Sections A, B and F; OR
- Sections A, and C through F.

SECTION A **Other Institutions Attended. (Everyone must complete this section.)**

The institution has information indicating the student attended institutions other than this institution.

❑ No, our records show no previous institution attended.
❑ Yes, our records indicate that the student has attended the following institutions: _____

_____

SECTION B **To be completed if the institution is not completing Sections C, D, and E.**

The information requested in Sections C, D, and E is not provided because:

❑ The student neither received nor benefited from any Title IV aid while at this institution.
❑ The transcript pertains solely to years for which the institution no longer has and is no longer required to keep records under the Title IV recordkeeping requirements.

If you have completed Section A and checked one of the reasons in Section B, and are not required to provide any other information, skip Sections C, D, and E, and complete Section F. Otherwise, proceed with Section C.

SECTION C **Check all statements that apply.**

❑ The student received increased Federal Perkins Loan/NDSL at this institution due to Expanded Lending Option or study abroad.
❑ The student had an outstanding balance on an NDSL at this institution on July 1, 1987, *which is still outstanding as of today's date.*
❑ The student had an outstanding balance on a Federal Perkins Loan/NDSL at this institution on October 1, 1992, *which is still outstanding as of today's date.*
❑ The student owes a refund due to overpayment on a Federal Pell Grant, FSEOG or Federal Perkins Loan/NDSL at this institution.
❑ The student is in default on a Federal Perkins Loan/NDSL/Income Contingent Loan (ICL) at this institution.
❑ The institution is aware that the defaulted Federal Perkins Loan/NDSL/ICL has been discharged in bankruptcy.
❑ The institution knows the student owes a refund due to overpayment on SSIG received for attendance at this institution.
❑ The institution knows that the student is in default on a Federal Family Education Loan or a William D. Ford Federal Direct Loan received for attendance at this institution (including consolidation loans).
❑ The institution is aware that the defaulted Federal Family Education Loan or a William D. Ford Federal Direct Loan has been discharged in bankruptcy.
❑ The student received "additional unsubsidized" Federal Stafford/Federal Direct Stafford/Ford funds at this institution as an independent student or as a dependent student whose parent was unable to borrow Federal PLUS/Federal Direct PLUS.

Revised 10/19/94

SECTION D **Assistance Received or Benefited From at This Institution**

For ALL federal aid programs: When indicating totals, deduct any refunds, repayments, or Federal Pell Grant recoveries which have been returned due to an overpayment or student withdrawal. Do **NOT** deduct Federal Perkins Loan/NDSL prepayments or payments made according to a repayment schedule.

Sources of Assistance	Current Year Amounts 19____–____	Cumulative Total (include current year)
Federal Pell Grant: Total Disbursed to Date:		xxxxxxxx
Scheduled Award (full time, full year):		xxxxxxxx
Does the school expect to make additional disbursements to the student after this transcript is signed? If so, indicate when: _____	xxxxxxxx	xxxxxxxx
Federal Perkins/NDSL Loans		
SSIG/State Grant/Other aid* (optional – identify each)		

* If this school participates in health professions aid programs through the Department of Health & Human Services, include them here.

SECTION E **Federal Family Education Loans/William D. Ford Federal Direct Loans Borrowed While at This Institution**

Column I - list loan period, grade level, and loan amounts borrowed from the Federal Family Education Loan/William D. Ford Federal Direct Loan Program for either the current year, or the academic year immediately preceding the current year (if no loan borrowed during current year). If no loan was borrowed for *either* of these periods, leave Column I blank.
Column II - list total of **ALL** Federal Stafford/Federal Direct Stafford/Ford **AND** Federal SLS/ALAS loans borrowed at **YOUR** institution.
Both Columns - deduct any refunds or repayments which have been returned due to student withdrawal; do not deduct loan fees.

	I. Current Year Loan (if no current year loan, list loan for immediately preceding academic year, if any)			**II. Cumulative Total at this Institution (Include Column I amounts)**
Federal Family Education Loans and William D. Ford Federal Direct Loans	Loan Period* *Use mm/dd/yy*	Grade Level	Amount Borrowed**	Total Amount Borrowed
Subsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from ___/___/___ to ___/___/___			
Unsubsidized Federal Stafford and Federal Direct Stafford/Ford Loans	from ___/___/___ to ___/___/___			
Federal SLS	from ___/___/___ to ___/___/___	xxxxx		
Federal PLUS/Federal Direct PLUS	from ___/___/___ to ___/___/___	xxxxx		xxxxxxxxxxxxxx

* Include all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.
** Total of all loans from all loan periods applicable to the same Borrower-Based Academic Year or Scheduled Academic Year.

SECTION F **This section must be completed.**

Authorized Signature _____ Date _____
Typed Name _____ Title _____
Name of Institution _____
Address _____
_____
Telephone _____
COMMENTS _____
_____

Form developed by the National Association of Student Financial Aid Administrators

Revised 10/19/94

SECTION FIVE: REFUNDS AND REPAYMENTS

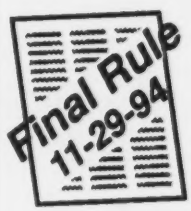
The policies and procedures of refunds and repayments have been significantly changed over the last few years. This section will explain the requirements in effect for the 1995-96 award year, discuss related issues, including litigation on unpaid charges, and provide refund and repayment examples. The rules discussed here are stipulated in the Higher Education Amendments of 1992 (commonly known as "Reauthorization"), the April 29, 1994 final regulations, the November 29, 1994 final regulations, and Dear Colleague Letter GEN-95-22. **These refund and repayment rules apply to all participating SFA schools.**

The SFA refund and repayment requirements **do not apply** to a student who withdraws from some classes, but continues to be enrolled in other classes; they only apply when the student—

Partial withdrawals not affected

- ✦ fails to register for the period of enrollment for which he or she was charged, or
- ✦ withdraws, drops out, takes an unapproved leave of absence, fails to return from an approved leave of absence, is expelled, or otherwise fails to complete the period of enrollment for which he or she was charged.

Effective July 1, 1995, when a student takes an approved leave of absence, it does not constitute a withdrawal and does not require the calculation of a refund or repayment for the student.* See page 3-83 for a detailed discussion of approved leaves of absence.

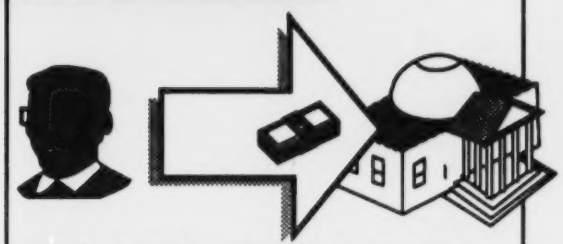


*For the 1994-95 award year, a student taking an approved leave of absence was considered to have withdrawn for the purposes of refund and repayment requirements.

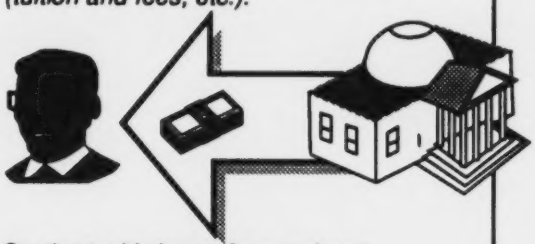
Students who don't receive SFA not affected

Further, the rules do not apply to students who have not received SFA funds for the enrollment period in question. (Students whose parents received a PLUS loan are considered to have received SFA funds, and so are covered by the SFA refund and repayment requirements.)

Refund Situation



Student enrolls and pays school charges (tuition and fees, etc.).



Student withdraws from school; school makes refund to SFA programs

The most frequent source of confusion with regard to refunds and repayments is a misunderstanding as to how these terms are used for SFA purposes. For instance, some say that a school "refunds" or "repays" financial aid to the SFA program fund if a student fails to enroll at the school. Also, at many schools, a "refund" is the direct disbursement to a student (after the school has credited the student's account for institutional charges). But the terms "refunds" and "repayments," as discussed in this Section, have specific meanings.

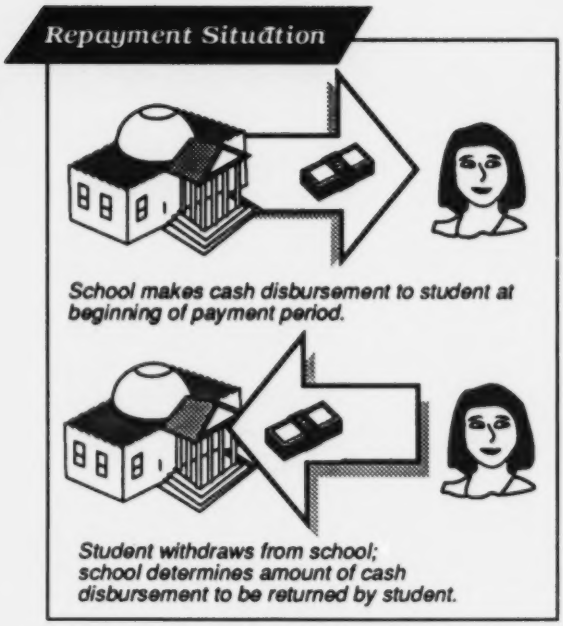
In this Section, a "refund" is the *unearned* amount of institutional charges that must be returned to the SFA programs, other sources of aid, and the student, for a student who received SFA funds and who has ceased attending school.

The refund is defined as the difference between the amount paid towards institutional charges (including financial aid and/or cash paid) and the amount the school can retain under the appropriate refund policy.

Total Amount Paid
−Amount Retained
= REFUND AMOUNT
$668.22

Aid Disbursed as Cash
−Living Expenses Incurred
= REPAYMENT AMOUNT
$668.22

A "repayment" is the *unearned* amount of a direct disbursement to a student that the student (who received SFA funds and who has ceased attendance) must pay back. (Usually, the school will use incoming aid to pay institutional charges and will disburse any remaining aid directly to the student.) If the school determines that the student received a direct disbursement in excess of the living expenses he or she could have reasonably incurred while still enrolled, then a portion of the disbursement was not *earned*, and must be repaid by the student to the SFA programs.


Repayment Situation
School makes cash disbursement to student at beginning of payment period.
Student withdraws from school; school determines amount of cash disbursement to be returned by student.

Two other important points: because wages under work-study programs are earned by the student and cannot be recovered, work-study funds are **never** considered in the refund and repayment process. Also, FFEL and Direct Loan funds are excluded in the *repayment* process, because the student is already required to repay them to the lender. Therefore, the school must have a way of knowing which program funds were used to credit the student's account and which were paid to the student for living costs.

FWS never included; FFEL and Direct Loan excluded from repayments

REQUIRED POLICIES AND PROCEDURES

Schools are required to provide a written statement explaining their refund policies and procedures to prospective students, prior to enrollment or prior to execution of an enrollment agreement, whichever is earlier. This information must also be provided in writing to currently enrolled students, and must include details on how refunds will be calculated and distributed, including an explanation of the various factors that will impact a student's refund (whether the student is a first-time student, what the State policy is, the concept of unpaid charges, etc.). The school must make examples of common refund examples available, although it is not necessary to provide an example of every possible refund situation. Additionally, the school must provide a detailed explanation of the procedures a student must follow to get a refund. Note, however, that an SFA school is required to comply with all SFA refund rules and regulations, regardless of whether students follow the school's required refund procedures or not.

Written policies required; students must be informed

Examples

Required procedures

If the school changes its refund policies or procedures at any time, it must ensure that all current and prospective students are made aware of the changes. Schools must also publish the student's costs for required books, supplies, and equipment. In addition, schools must substantiate to the Department, upon request, that those costs are reasonably related to the school's cost for those supplies.

Schools must publish costs

FAIR AND EQUITABLE REFUND REQUIREMENT

Every participating SFA school must have a fair and equitable refund policy.

The Higher Education Amendments of 1992 define a "fair and equitable refund policy" as one that provides for a refund of at least the largest amount under—

Three possible refund policies

- Applicable State law,*
- Specific refund requirements established by the school's nationally recognized accrediting agency, as approved by the Secretary;* or
- The *pro rata* refund calculation defined in the Higher Education Amendments of 1992 (*if* the student is attending the school for the first time, and withdrew on or before the 60% point of the enrollment period). *Pro rata* refunds are discussed later in this Section.

Calculate and compare State vs. accrediting agency

Therefore, for each SFA student who does not complete the enrollment period for which they were charged, the school must calculate all possible refunds to see which is the largest. If a student is not a first time student who withdrew on or before the 60% point of the enrollment period, this means the school must calculate the student's refund amounts using the applicable State and accrediting agency policies (if any), compare the two resulting refunds, and use the calculation that provides the largest refund. In accordance with the June 8, 1993, April 29, 1994, and November 29, 1994 regulations, **when calculating a non*pro rata* refund, the school must subtract any unpaid charges from the amount retained by the school.** (See pg. 3-86 for a detailed discussion of unpaid charges.)

***Pro rata* requirement**

For those SFA students who are first-time students and who withdraw on or before the 60% point in time of the enrollment period for which they were charged, the school must also calculate a statutory *pro rata* refund and compare this amount to the refund amount from the State and accrediting agency policies (if any) to determine the largest available refund to the student. (For more details on *pro rata* , see pg. 3-93.)

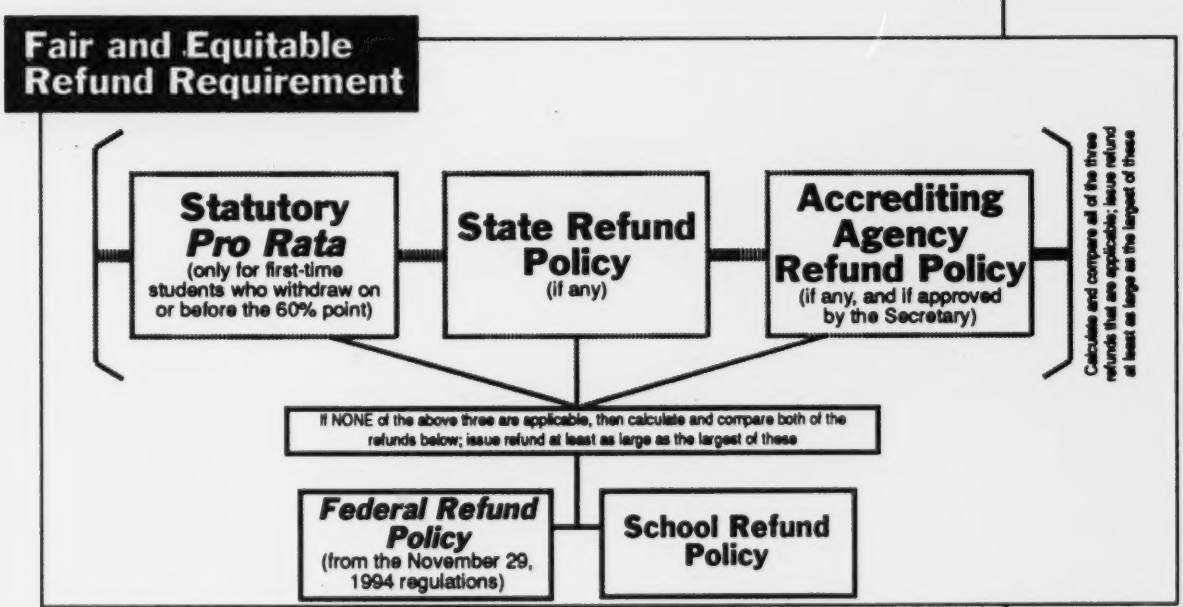
After calculating all possible refund amounts (State, accrediting agency, and statutory *pro rata*), the school must compare and use the calculation that provides the largest refund.

*See the discussion of the April 1995 Dear Colleague Letter on page 3-78.

If none of the three options above apply to a particular student, the school must then calculate a refund according to the Federal Refund Policy of the November 29, 1994 regulations.* The school must compare the Federal Refund Policy refund with the refund amount under its own institutional refund policy (the policy it uses for nonSFA students), and issue the larger of the two refunds. (These two refunds are non*pro rata* refunds, so the school must subtract any **unpaid charges** from the amount that can be retained by the school. See pg. 3-86 for a detailed discussion of unpaid charges.)

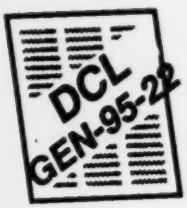
Federal Refund Policy vs. the school's policy

The flowchart below illustrates the various required refund calculations and comparisons that may be required.



*The November 29, 1994 regulations replaced Appendix A with the Federal Refund Policy. For more information, see pg. 3-95.

DEAR COLLEAGUE LETTER (DCL)



The April 1995 DCL (GEN-95-22) provided updated guidance on accrediting agency and State refund policies. Previously, the Department stated that if an accrediting agency was recognized by the Department, its refund policy could be considered to be "approved." The Department has since reversed its policy on this issue. The Department must specifically approve the accrediting agency's refund policy before it may be used in the refund comparison. The DCL also clarifies that a State refund policy refers not only to laws enacted by the State's legislature, but also to refund regulations of a State agency, if the regulations were established through a legally enforceable regulatory process and carry the force and effect of law. If a school is using a policy as a State refund policy, the school must be able to refer to a State law or State regulation that establishes those refund requirements. Schools that followed prior guidance on accrediting agency policies, or assumed that only refund policies included in State statute could be used, will be exempted from any repayment liabilities resulting from these courses of action for refunds calculated prior to May 1, 1995, or the receipt of the DCL. Schools must still comply with all other provisions of the refund requirements.

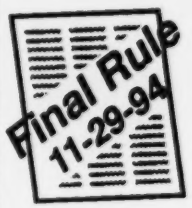
The DCL also provided information on litigation of the "unpaid charges" rule as it relates to the calculation of State refunds. The DCL stated that the courts have imposed a preliminary injunction against the Department prohibiting it from enforcing certain provisions of the regulations until the lawsuits are resolved. The DCL stated that the Department will limit the scope of program reviews and audits (provided the school was and is in compliance with all other aspects of the refund regulations) as follows:

For refunds calculated prior to November 28, 1994 (the date of the first preliminary injunction): Program reviews and audits will determine and report on whether **State** refund calculations incorporate the treatment of unpaid charges; however, no monetary liabilities will be assessed while the injunctions are in effect.

For refunds calculated on or after November 28, 1994 (until further notice): The Department will not assess any liabilities against schools that calculate refunds under the **State** policy and do not include the treatment of unpaid charges.

Finally, the DCL provided information on a policy change regarding the treatment of an administrative fee for *pro rata* refund calculations. (See pg. 3-94.)

REFUNDS UNDER $25



Effective July 1, 1995, a school does not have to pay a refund of $25 or less. However, because a refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay, a school may not keep any portion of a refund that would be distributed to an SFA loan program unless the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's debt, should the student withdraw.

A school is not required to actually calculate the refund to prove that it is $25 or less if it can demonstrate that the institutional charges are so low that no refund would exceed $25.

COMPARING TO DETERMINE THE LARGEST REFUND

Let's look at a sample refund situation. St. Mark's Academy (SMA) charges by the 10-week semester. Bob is a first-time student at SMA and received Federal SFA funds. He withdraws in the third week [3 ÷ 10 = 30%], so the statutory *pro rata* refund requirements apply. SMA must calculate the student's refund according to its State guidelines (if any), its accrediting agency guidelines (if approved by the Department), and the statutory *pro rata* requirements.

State guidelines. SMA's State guidelines allow it to retain institutional charges proportional to the portion of the enrollment period completed by the student. Because Bob attended 30% of the semester, SMA may keep 30% of the institutional charges. (This modified *pro rata* refund is voluntary, not statutory [i.e., not required by Federal law]—so it is non*pro rata* and must be calculated according to the unpaid charges requirements. The refund regulations require that unpaid charges must be subtracted from the amount retained by SMA, but this issue is currently in litigation. For details on this topic, see pg. 3-78.)

Voluntary *pro rata*

Accrediting agency guidelines. SMA's accrediting agency refund policy is not approved by the Department. Therefore, calculation and comparison of the accrediting agency refund is not applicable.

Statutory *pro rata* requirements. The statutory *pro rata* rules require SMA to refund institutional charges proportional to the portion of the enrollment period that remains, rounded down to the nearest 10%. (Notice the State policy dictated how much SMA is allowed to *retain*, but statutory *pro rata* requirements are written in terms of how much the school must *return*.) The portion of the enrollment period that remains is calculated according to statutory formula (discussed on pg. 3-94). Using that formula, SMA calculates that 70% of Bob's enrollment period remains. Accordingly, SMA must refund 70% of institutional charges under the statutory *pro rata* refund calculation, and retains 30%.

Calculating and comparing the refunds. In determining which calculation provides the largest refund, it is not enough to simply compare the refund percentages dictated by each policy. The school must completely calculate each refund separately, and then compare the resulting amounts. (Even though the State and *pro rata* refund policies provide for the same percentage refund, the school must perform both calculations and compare, because requirements specific to each policy may affect an individual's refund amount.) Also, do not automatically assume that the statutory *pro rata* calculation provides the largest refund - that is not always the case.

Compare *AFTER* calculating the refund

In addition to the amounts the school is allowed to retain under each policy, SMA needs the following figures to calculate both refunds: (1) total institutional charges, (2) total amount paid to those charges, and (3) Bob's total unpaid charges.

(1) Bob's institutional charges for the semester total **$1500**.
(2) Bob received an $850 Federal Pell Grant disbursement and a $300 FSEOG payment; both credited to pay institutional charges. Bob also made a $200 cash payment. A total of **$1350** was paid toward institutional charges [$850 + $300 + $200 = $1350].
(3) Unpaid charges are calculated by subtracting the total amount paid to institutional charges from the total institutional charges. Bob's unpaid charges equal **$150** [$1500 - $1350 = $150]. (For a details on unpaid charges and the impact on a refund calculation, see pg. 3-86.)

```
  850
+ 300
+ 200
= 1350
```

```
 1500
- 1350
= 150
```

The State refund calculation. The State refund policy allows SMA to keep 30% of its institutional charges [$1500 x .30 = **$450**]. The unpaid charges [$150] must be subtracted from the amount SMA could otherwise retain [$450]. Thus, SMA is actually entitled to retain only **$300** [$450 - $150 = $300]. SMA then subtracts the amount retained [$300] from the amount paid to institutional charges [$1350] to figure the refund [$1350 - $300 = $1050]. The State refund is **$1050**.

```
 1500
x .30
= 450
- 150
= 300

 1350
- 300
= 1050
```

The statutory *pro rata* refund calculation. The statutory *pro rata* policy dictates that SMA's refund be proportional to the portion of the enrollment period that remains. As explained previously, 70% of Bob's enrollment period remains, so SMA must refund 70% of the institutional charges [$1500 x .70 = **$1050**]. The regulatory requirements regarding unpaid charges do not apply to a statutory *pro rata* calculation; rather, the statutory *pro rata* allows SMA to subtract Bob's unpaid charges [$150] from his initial refund amount [$1050]. Thus, the statutory *pro rata* refund would actually be **$900** [$1050 - $150 = $900].

```
 1500
x .70
= 1050
- 150
= 900
```

After calculating all the applicable refunds, the school must use the calculation that provides the largest refund—in this case, it is the State calculation resulting in a refund of **$1050**. Of that amount, $850 must be returned to the Federal Pell Grant program, and the remaining $200 goes to the FSEOG account, in accordance with the law and regulations. (For more on the required distribution of refunds and repayments, see pg. 3-99.)

WITHDRAWAL DATE

Regardless of whether it's a *pro rata,* State, accrediting agency, Federal Refund Policy, or institutional refund, the refund amount (and the repayment amount, too) is always determined in part by the student's **withdrawal date**. Some refund and repayment deadlines are also determined according to this date. (See "Timeframes For Return Of Funds" later in this Section.)

Official withdrawals

In the case of an official withdrawal, the student's withdrawal date is either the date the student notifies the school of his or her intent to withdraw or the date of withdrawal specified by the student, whichever is later.

Unofficial withdrawals

In the case of an unofficial withdrawal or an unapproved leave of absence (or a student's failure to return at the end of an approved leave of absence),* the withdrawal date is the last recorded date of class attendance (as documented by the school). Further, the school is required to determine the withdrawal date for an unofficial withdrawal within 30 days of the end of the period of enrollment, the academic year, or the program, whichever is earliest.

Schools must document student attendance

Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specified point in time. The school's determination of the student's last day of attendance must be based on an event that the school routinely monitors and must be confirmed by an employee of the school. If these conditions are met, the following are acceptable forms of such documentation: exams, records of attendance, tutorials, computer-assisted instruction, counseling, academic advisement, or study groups.

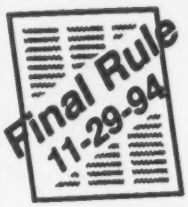
Correspondence

For a correspondence program, the withdrawal date is normally the date of the last lesson submitted, if the student failed to submit the subsequent lesson on schedule.**

*See the discussion on leave of absence on pg. 3-83.

**If within 60 days of the last lesson submission, the student states in writing that he or she wishes to continue in the program and understands that subsequent lessons must be submitted in time, the school may restore the student to in-school status. Only one such restoration can be granted to a particular student.

APPROVED LEAVE OF ABSENCE



Beginning July 1, 1995, a student who takes an approved leave of absence is not considered to have withdrawn from the school. A leave of absence is approved if—

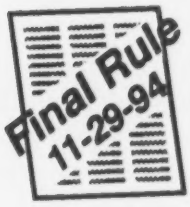
- the student has made a written request for the leave of absence,
- the leave of absence does not exceed 60 days,
- the school has granted only one leave of absence to the student in any 12-month period, and
- the school does not charge the student for the leave of absence.

If a student's leave of absence is **not** approved, the student is considered to have withdrawn from the school, and the refund requirements apply.

These leave of absence requirements also affect a student's in-school status for the purposes of deferring SFA loans. A student on an approved leave of absence is considered to be enrolled at the school and would be eligible for an in-school deferment for his or her SFA loans. A student who takes an *unapproved* leave of absence or fails to return to the school at the end of an approved leave of absence is no longer enrolled at the school and is **not** eligible for an in-school deferment of his or her loans.

PERIOD OF ENROLLMENT

The refund and repayment amounts are also determined in part by the period of enrollment used in the calculation. The regulations require that a school use the actual period for which the student was charged,* with the following minimums—



- **For all term programs**—use the semester, trimester, quarter, or other academic term. Effective July 1, 1995, clock-hour term programs have the same minimum as credit-hour term programs. For the 1994-95 award year, the minimum period for all clock-hour programs (term and nonterm) was the lesser of the program length or the academic year.

- **For all nonterm programs**—for programs that are longer than or equal to the academic year, use the payment period or one-half of the academic year, whichever is greater; for programs that are shorter than the academic year, use the program length. (These new minimums are also effective July 1, 1995.)

(If a school charges by different periods for different costs, all charged amounts should be converted to represent the longest period.)

DETERMINING INSTITUTIONAL AND NONINSTITUTIONAL CHARGES

To calculate either a refund or a repayment, the school must first determine the student's costs and differentiate them into two different types: institutional charges (such as tuition) for refund purposes; and noninstitutional charges (such as off-campus rent, living expenses, or transportation costs) for the purposes of the repayment calculation.

Is it an allowable COA component?

Many of the questions about what charges can be included in the refund or repayment calculation can be answered by determining whether the charge is an allowable component of the student's Cost of Attendance (COA) under SFA program rules. For instance, an application fee is not an allowable COA component under SFA rules, because it is charged to any student who applies, regardless of whether they actually enroll, register, or attend classes. Therefore, the application fee could not be included as a cost to the student, in either the refund or repayment calculation. (Allowable COA components generally include only those

*How the student is billed, such as on an installment or monthly payment plan, does not automatically determine how much the student was "charged." The "period of enrollment for which the student was charged" is the period for which the student is contractually liable by having signed an enrollment agreement or similarly binding document.

costs that are required for a student's educational study and are required for all students in a certain program or class. For more information of COA and related issues, see Chapter Two of this *Handbook*.)

Even if the cost is an allowable COA component, it is often unclear whether it's an institutional charge or a noninstitutional charge. Tuition charges are always institutional charges, but everything else (fees, room and board charges, books and supply costs, etc.) is subject to Departmental guidance and State or accrediting agency refund rules. Usually, if the student purchases books or supplies from the school, it's an institutional cost. However, the Department has determined that if the student has a **real and reasonable** opportunity of obtaining the items (such as books) elsewhere, and only *chooses* to get them at the school as a matter of convenience, the cost is a noninstitutional charge.*

The *pro rata* refund and the Federal Refund Policy regulations are very specific in defining institutional and noninstitutional charges, and even though these definitions aren't requirements for non*pro rata* refund calculations, schools can use them as a guide when differentiating between institutional and noninstitutional charges, provided they are not in conflict with applicable State or accrediting agency rules.

Pro rata and Federal Refund Policy rules for equipment and other charges

Under *pro rata* and Federal Refund Policy rules, if the cost is listed in the student's enrollment agreement as a separate and required charge, or if the school refers the student to a school vendor or affiliated entity to purchase the required item, then it is considered an institutional cost. (Also, room charges that are collected by the school but are "passed-through" to an unaffiliated entity are not considered institutional costs so long as that entity is not controlled, affiliated with, or otherwise related to the school's owners or management.) Lastly, *pro rata* and Federal Refund Policy rules don't count group health insurance fees as an institutional charge, so long as the insurance is required for all students and the purchased coverage remains in effect for the entire period for which the student was charged, in spite of the student's withdrawal. (Such a cost would be included as noninstitutional in the student's living allowance or miscellaneous expenses.)

*Some schools have adopted the practice of issuing a student's SFA cash disbursement in the form of a voucher, good as cash in the school's own bookstore. The school ostensibly gives the student the option of purchasing books from other stores as well, but without the benefit of the voucher. Such a student **does not** have a reasonable opportunity to purchase his or her books elsewhere, because to do so would mean forfeiting the cash value of the voucher. Therefore, book charges under such a system must be considered institutional charges for the purposes of a refund or repayment calculation.

UNPAID CHARGES

Before calculating a refund, schools must first figure the student's unpaid charges, according to the regulatory formula given below. The "Unpaid Charges" *figure* is used differently in non*pro rata* refunds than it is in *pro rata* refunds, but the unpaid charges *calculation* is exactly the same, no matter what type of refund is involved:

Total Institutional Costs for the Enrollment Period
—Total Aid Paid to Institutional Costs
= Student's Scheduled Cash Payment (SCP)
—Student's Cash Paid
= UNPAID CHARGES

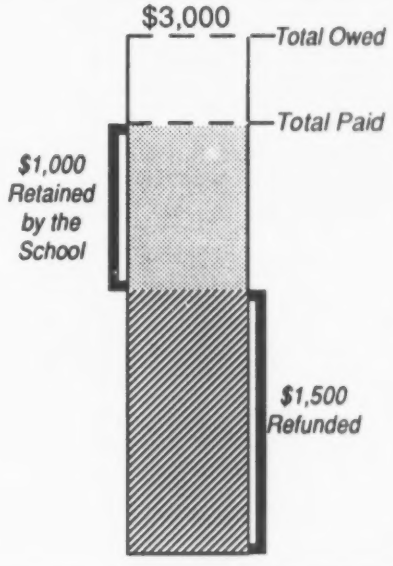
In calculating unpaid charges, the school must take into account any late SFA disbursements or permissible late disbursements of State student aid for which the student is still eligible and will receive in spite of having withdrawn. The late disbursement amount should be counted in "Total Aid Paid to Institutional Costs." (For more on late disbursements, see pg. 3-88.)

For all refunds other than a statutory *pro rata* refund required by law, any unpaid charges must be subtracted from the amount the school could otherwise retain, as shown below. (However, the applicability of this requirement to State calculations is currently under litigation; for more details, see pg. 3-78.)

EXAMPLE — UNPAID CHARGES

AnneMarie's institutional costs for the semester total $3,000. SFA pays for $2,500. Her scheduled cash payment is $500 ($3,000 - $2,500 = $500). AnneMarie withdraws without making any payments. Therefore, her unpaid charges equal $500. The school's State policy allows it to retain 50% of the total school costs ($3,000 x .50 = $1,500). *Under the old refund rules, the calculation would stop here, and the refund would equal $1000 ($2,500 paid - $1,500 retained = $1000 refund.*

However, the unpaid charges rule requires that the school subtract AnneMarie's unpaid charges from the amount it could otherwise retain ($1,500 - $500 = $1,000). Thus, the school would refund $1,500 ($2,500 paid - $1,000 retained = $1,500 refund).



In the past, SFA funds would have paid the charges owed by the student, contradictory to the basic assumption that a student's own resources should be expended before SFA funds are used. This treatment of unpaid charges reaffirms the principle that the student is primarily responsible for financing his or her own education.

Primary responsibility rests with student

In a non*pro rata* refund situation, if the student's unpaid charges are equal to or greater than the amount that can be retained by the school, then the school must return all of the SFA funds (other than FWS) that were used to pay institutional charges. Also, if the school is not able to retain the full amount allowed under the applicable refund policy, it may collect the remaining balance from the student (the unpaid charges amount). If there are no unpaid charges, the school can retain the full amount allowed and cannot charge the student for any additional amount. (The underlying assumption is that the school is entitled to get only the money it *earned* during the student's enrollment, as determined by the applicable refund policy.)

After the refund is calculated, if a student who is due to directly receive a portion of a refund owes unpaid charges to the school, the school may automatically credit the refund amount to the student's account up to the amount owed by the student.

As stated previously, the "Unpaid Charges" total is used differently in the statutory *pro rata* refund calculation. For details, see "*Pro Rata* Refund Calculations" on pg. 3-93. (Note the if the school voluntarily elects to calculate a *pro rata* refund in situations where it is not required by Federal law—such as if the school's State guidelines require it—it is a non*pro rata* refund. As explained above, the unpaid charges must be subtracted from the amount the school could otherwise retain.)

LATE DISBURSEMENTS

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, in some cases, a late disbursement may be made. (See the discussion below for the specific late disbursement rules of each Federal SFA program.) A late disbursement may affect the refund calculations, as explained on pg. 3-91.

The FFEL Programs.* Generally, if a school receives a student's loan proceeds from the lender after the student has lost eligibility, those proceeds must be returned to the lender within 30 days. However, unless the guaranty agency prohibits late disbursements, the school may make a late disbursement if all of the following conditions apply—

- The loan proceeds are **disbursed by the lender within 60 days** after the student has ceased to be enrolled on at least a half-time basis (or after the end of the enrollment period for which the loan was made, whichever is earlier),

- The loan proceeds comprise **the student's first disbursement** for the enrollment period for which the loan was made (second or subsequent disbursements may not be made late if the student failed to complete the enrollment period for which the loan was made; these funds must be returned to the lender), and

- The disbursement amount **does not exceed the documented educational charges**—for the enrollment period for which the loan was made—that were incurred by the student while still enrolled and that have not been paid by the student or other sources of aid. (If the disbursement amount does exceed documented costs incurred, the school must return the disbursement to the lender and request another disbursement in the correct amount.)

If documented exceptional circumstances exist, a school may make (with the approval of the guaranty agency) a late disbursement if the loan proceeds are disbursed by the lender within **90 days** after the student has ceased to be enrolled on at least a half-time basis (or after the end of the enrollment period for which the loan was made, whichever is earlier).

*In addition to the above rules, the school may not, under any circumstance, make a late FFEL disbursement to a first-year undergraduate borrower who failed to complete the first 30 days of the enrollment period for which the loan was made.

The Federal Perkins Loan and FSEOG Programs. As of July 1, 1995, under certain conditions, a student who drops out before receiving his or her funds from the Perkins Loan or FSEOG programs can receive a payment. The school may disburse funds only if the student is awarded while he or she is still an eligible student and only if the funds are used to cover documented educational costs that were for a payment period for which the award was intended and the student was actually enrolled. The school must document in the student's file the reason for the late disbursement (see Chapter Five Section One).

The Direct Loan Program. Generally, a school may make a late disbursement if the loan proceeds are **disbursed within 60 days** after the student has ceased to be enrolled on at least a half-time basis (or after the end of the enrollment period for which the loan was made, whichever is earlier). **If documented exceptional circumstances exist**, a school may make a late disbursement within **90 days** after the student has ceased to be enrolled on at least a half-time basis (or after the end of the enrollment period for which the loan was made, whichever is earlier).

The loan proceeds must comprise **the student's first disbursement** for the enrollment period for which the loan was made. Subsequent disbursements may not be made late if the student failed to complete the enrollment period for which the loan was made unless the borrower has graduated or successfully completed the period of enrollment for which the loan was intended; these funds must be returned.

The Federal Pell Grant Program. If the school receives a valid output record (such as an SAR from a student or an ISIR from the central processor) before the student loses eligibility, the student may receive a late Pell Grant disbursement, limited to the educational costs that could reasonably have been incurred prior to withdrawal and that have not been paid by the student or other sources of aid. (A late Pell disbursement may not result in a return of funds to the student or other sources of aid. In other words, you may not use a late Pell disbursement to pay institutional charges that have already been paid by the student or other aid, and then return an equal amount back to the student or aid source.) Late Pell Grant disbursements are discussed in detail below.

Two ways to make a late Pell disbursement

As with other financial aid programs, late Pell disbursement may be made in **two ways**: credited to the student's account to cover institutional charges, or paid directly to the student (in cash or by check) for noninstitutional costs. It is important to differentiate between these two methods of late Pell disbursement, because the rules governing late Pell disbursements differ depending on whether the funds are credited to institutional charges or disbursed for living expenses. Also, the refund process deals specifically with funds paid to institutional charges, while the repayment calculation deals only with disbursements of funds directly to the student.

Late Pell disbursements credited to school costs

In the past, schools have sometimes used their institutional refund policy to determine what institutional costs could reasonably have been incurred, but because the late disbursement amount is a factor in the refund calculation, this method doesn't work well. Therefore, the Department recommends that schools simply determine, **prior to calculating any refund amounts,** what educational costs exist (for the period charged) that have not been satisfied by the student or by other sources of aid. A late Pell disbursement up to that amount may then be credited to institutional charges. (Refer to the example below.)

For instance, if institutional charges for the enrollment period total $2000, and at the time of withdrawal only $1500 had been paid, then institutional charges of $500 exist. Assuming the student is otherwise eligible, a late Pell disbursement of $500 could be credited to the student's account. (Even if the student was eligible for a larger Pell Grant, only $500 could be credited to institutional charges. Any remaining Pell funds for which he was eligible could be disbursed to the student, but only for noninstitutional costs incurred, as discussed below.)

Late Pell disbursements paid in cash

To make a late Pell disbursement directly to the student, the school must still determine on a case-by-case basis what noninstitutional expenses could reasonably have been incurred by the student prior to his or her withdrawal and have not been paid by other sources of aid. A late Pell disbursement in that amount may be paid to the student, subject to the provisions of 34 CFR 690.78(d). (See the example below.)

EXAMPLE — PELL LATE DISBURSEMENTS

Assume a student, Shazam, has completed 20% of her enrollment period and submitted a valid SAR prior to withdrawal, but had not yet received her $1000 Pell Grant. The institutional charges totalled $3000, and $1400 has been paid from other aid. Institutional costs of $1600 exist [$3000 - $1400 = $1600]. Because this amount exceeds Shazam's Pell award, a late Pell disbursement of the full $1000 may be credited to institutional charges.

Because the school may count that $1000 as paid toward institutional charges even though it has not yet been received, Shazam's unpaid charges would be $600 [$3000 - $1400 - $1000 = $600]. In this case, the school's policy allows it to keep 50% of the $3000, or a total of $1500. Unpaid charges must be subtracted from the amount the school may retain: $1500 - $600 = $900. The school may retain $900 of the amount paid to institutional charges, and must refund the balance to the federal SFA programs.

Living expenses for the term were $2500; prorated at 20%, Shazam's noninstitutional costs incurred equal $500. If Shazam's full Pell award had not been used to satisfy institutional charges, she could have received a late Pell disbursement of up to $500 in cash.

For instance, the student's noninstitutional expenses for the full enrollment period could be prorated for the period of time the student actually attended, taking into account any set policies and procedures that may apply. (If a student's rent is paid monthly and is not refundable under the

landlord's policy, you may reasonably determine that a month's rent was incurred even if the student did not attend school for a full month. Similarly, if the campus bookstore's policy refunds only 50% of the purchase price of required books or supplies, you may justifiably determine that a student who actually began class incurred 50% of the cost of books and supplies regardless of when he withdrew.)

The Effect of Late Disbursements on Refunds and Repayments. Once you've determined the student's reasonably incurred costs, you can calculate how much if any late SFA funds may reasonably be disbursed to the student. (Some States also allow late disbursements of State aid in certain circumstances.) Schools should determine late disbursement amounts **prior to any refund or repayment calculations,** and such determinations should be based on real expenditures and stable, predictable factors. Schools should develop a policy for such determinations and must ensure that the policy is consistently applied to all withdrawal situations that involve a late disbursement of SFA and State funds.

When calculating a refund, any SFA late disbursement amount that *will be* credited to institutional charges must be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges. (For more on unpaid charges, see pg. 3-86.) The repayment calculation should also consider late disbursements of SFA that will be paid directly to the student for living expenses (in the case of a student's institutional charges being paid in full).

Late State disbursements

Late disbursements of State aid may also be counted as *already paid* toward institutional charges, thereby reducing the student's scheduled cash payment and unpaid charges, under the following circumstances—

- The late disbursement is made according to the State's written late disbursement policies, and the student is eligible for the disbursement in spite of having withdrawn, and
- The disbursement is made within 60 days of the student's withdrawal. (If the late disbursement of State aid does not come in within 60 days, the school must recalculate the SFA refund and return any additional amounts to the appropriate SFA accounts or the lender as required.)

Other late disbursements not considered

Late disbursements of aid from sources other than the Federal SFA programs or applicable State aid may not be counted as already paid for purposes of the SFA refund and repayment calculations. Generally, all earned aid disbursements will have been received by the time a student's SFA refund and repayment amounts are calculated. In the rare case that a student aid payment from another source is received *after* the SFA refund and repayment have been calculated and processed, the funds should be handled according to the policies of the agency or entity providing the aid. In many cases, the student will still have unpaid charges or unmet living expenses for which the aid may be used.

CREDIT BALANCES

Credit balances are handled separately from the refund and repayment process. *Except for FWS funds* (which must always be paid to a student who worked), a credit balance of SFA funds must either be given to the student or returned to the SFA programs. SFA funds can be paid to the student only for noninstitutional educational costs incurred* prior to withdrawal; otherwise, these funds must be returned to the SFA programs. FFEL funds would be returned to the lender; Pell and Direct Loan funds would be returned to the appropriate school accounts (with corresponding adjustments to disbursement records sent to the Department); and FSEOG and Perkins Loan funds would be returned to the appropriate accounts at the school, for possible awarding to other students.

*In determining the educational costs incurred prior to withdrawal, the school may include documented, noninstitutional costs incurred by the student.

PRO RATA REFUND CALCULATIONS

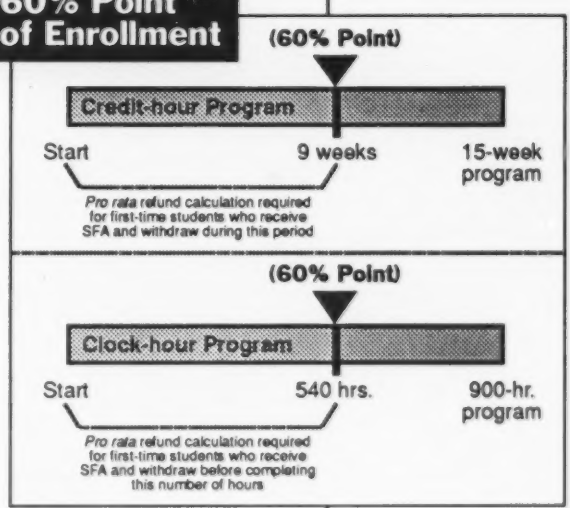
Previously, only schools with high FFEL program default rates were required to issue *pro rata* refunds, calculated in accordance with FFEL regulatory requirements. However, the 1992 Amendments' "fair and equitable" refund requirement (including *pro rata*) apply to all participating SFA schools, **regardless of their default rates.**

A statutory *pro rata* calculation is required if the student received SFA funds and **both** of the following conditions apply—

1. **The student is a first-time student.** "First-time student" is defined in the regulations as any student who has not attended at least one class at your school, or who received a full refund (less any allowable administrative fees) for previous attendance at your school. Prior attendance at another postsecondary school does not preclude a student from being a first-time student at your school. A student remains a first-time student until he or she either ceases attendance after attending at least one class, or completes the period of enrollment for which he or she has been charged.

2. **The student withdrew on or before the 60% point in time of the enrollment period for which he or she was charged.** For credit-hour programs, this is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when the student completes 60% of the hours scheduled for the enrollment period.

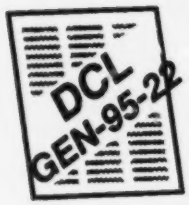
60% Point of Enrollment


(60% Point)
Credit-hour Program
Start
9 weeks
15-week program
Pro rata refund calculation required for first-time students who receive SFA and withdraw during this period
(60% Point)
Clock-hour Program
Start
540 hrs.
900-hr. program
Pro rata refund calculation required for first-time students who receive SFA and withdraw before completing this number of hours

If **both** of the above conditions apply to the student in question, then a statutory *pro rata* refund must be calculated and compared to other applicable refunds (State and/or accrediting agency).

However, if the school has no applicable State or accrediting agency policies, no refund comparisons are required for the first-time students who withdrew on or before the 60% point in the enrollment period. The only applicable option for these students is *pro rata*, so no other calculation is necessary. For all other SFA students at a school with no applicable State or accrediting agency policies (those who are *not* first-time and have *not* withdrawn on or before the 60% point in the enrollment period), the school would have to calculate an Federal Refund Policy refund and an institutional refund, compare the two, and issue the largest.

Some different rules apply when calculating a *pro rata* refund. Some institutional charges can be excluded from the proration that results in the refund amount. So, the amount of institutional charges that is used in a non*pro rata* refund calculation may be different than the amount used for a *pro rata* calculation. The following amounts can be **excluded** from the institutional charges used to calculated a *pro rata* refund—



- A reasonable administrative fee, not to exceed $100 or 5% of the total institutional charges, whichever is less. Previously, this had to be an actual fee, charged up front and across-the-board to like groups of students. Effective July 1, 1995, a school may exclude an administrative fee (within the above limits) without specifically identifying it as a separate charge.*

- The *documented cost to the school* (in other words, what the school paid for the items) of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal.**

Another step unique to the *pro rata* refund calculation is the determination of the "portion that remains." Under a *pro rata* refund, the school must refund an amount proportional to the portion of the enrollment period that **was not** completed by the student. This "portion that remains" percentage is calculated based on the following formula and may be rounded down to the nearest 10%.

TO DETERMINE THE PORTION THAT REMAINS

•Schools that use credit hours:

$$\frac{\text{WEEKS REMAINING}}{\text{TOTAL WEEKS IN PERIOD}}$$

•Schools that use clock hours:*

$$\frac{\text{HOURS REMAINING}}{\text{TOTAL HOURS IN PERIOD}}$$

•Correspondence courses:

$$\frac{\text{LESSONS NOT SUBMITTED}}{\text{TOTAL LESSONS IN PERIOD}}$$

*DO NOT use *scheduled* hours. Also, excused absences count as "hours completed."

*However, the school must indicate clearly (as part of the written statement explaining its refund policies to students) that a withdrawing student's refund will be reduced by the exclusion of an administrative fee from the refund calculation.

**The school must notify the student in writing prior to enrollment that return of the equipment will be required within 20 days of withdrawal. Also, the school must disclose in the enrollment agreement any restrictions on the return of equipment, including the identification of unreturnable items. The school cannot delay the payment of a refund by reason of the equipment return process.

It is important to note that, because of the required rounding, this "portion that remains" figure will not necessarily correspond to the "percentage point in time" used to determine if a student withdrew on or before the 60% point. For instance, if a student withdraws at the 35% point in time, the portion that remains—65%—would be rounded down to 60%.

Unpaid charges treated differently

Finally, the *pro rata* refund calculation differs from all non*pro rata* calculations in that the "Unpaid Charges" total is treated differently. Instead of being subtracted from the amount the school may retain, the unpaid charges are subtracted from the refund amount. Thus, a portion of the refund goes to pay the student's unpaid charges, instead of being returned to the SFA programs.

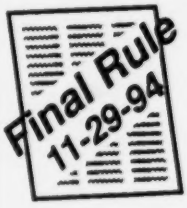
If unpaid charges exceed the refund

If the initial SFA refund is equal to or greater than the student's unpaid charges, the school will be able to retain the full amount allowed and cannot bill the student for any additional funds. However, in the rare case that the statutory *pro rata* refund due is less than a student's unpaid charges, the school may bill the student for the remaining amount. For instance, assume a student's statutory *pro rata* refund was calculated at $800, but his unpaid charges totaled $900. Assuming the *pro rata* calculation was the only applicable refund for the student, the school could keep the entire refund and bill the student for the remaining $100. (For more information on unpaid charges, see pg. 3-86.)

Excludable costs

Similarly, the school is entitled to bill the student for any of the charges that were **excluded** from the *pro rata* calculation that were left unpaid. (The school is entitled by law to retain 100% of those costs, and if they were not paid in full by the student or other sources, the school is entitled to bill the student.)

FEDERAL REFUND POLICY CALCULATIONS



Effective July 1, 1995, the Appendix A refund policy is replaced by the Federal Refund Policy. The percentage calculation under the Federal Refund Policy has not changed from the calculation required under Appendix A. The other requirements of the Federal Refund Policy will be the same as certain requirements of the *pro rata* refund policy.

As stated on pg. 3-76, a school must calculate for any SFA student a maximum of three refunds and compare those to determine the largest applicable refund for the student. Those three refunds are (1) a statutory *pro rata* refund, if applicable, (2) a State refund, if State standards exist, and (3) an accrediting agency refund, if the agency's policy is approved by the Department. **If none of the three options above apply to a particular student,** the school must then calculate a Federal Refund Policy refund, compare it with the refund calculated under the school's

own institutional refund policy, if any, and issue the larger of the two refunds. Because a Federal Refund Policy refund is a non*pro rata* refund, the school must subtract any **unpaid charges** from the amount that it could otherwise retain. (See pg. 3-86 for more on unpaid charges.)

Applies to all withdrawals

Unlike Appendix A, the Federal Refund Policy requires schools to use the policy for all students who withdraw, not just for students who provide written notice of withdrawal. The Federal Refund Policy mandates the percentage of institutional charges* that must be refunded as follows—

Refund percentages mandated

- Withdrawal up to one week before or on the first day of class—**100% refund** of institutional charges (less an administrative fee of the lesser of $100 or 5% of institutional charges--see pg. 3-94 for more information).*
- Withdrawal from after the first day of class through the first 10% of the enrollment period—**90% refund** of institutional charges.
- Withdrawal from after the first 10% of the enrollment period through the first 25% of the enrollment period—**50% refund** of institutional charges.
- Withdrawal from after the first 25% of the enrollment period through the first 50% of the enrollment period —**25% refund** of institutional charges.

Schools should note that if a student withdraws before his or her first day of class, SFA funds may not be used to pay any portion of a student's educational costs. So, although the Federal Refund Policy permits a school to retain an administrative fee if the student withdraws up to one week before the first day of class, the school may not use SFA funds to cover this amount.

*When used in the Federal Refund Policy, the term "tuition charges" refers to **all** institutional charges.

Equipment costs

As with the *pro rata* refund policy, a school may **exclude** from the institutional charges used to calculated the Federal Refund Policy refund a reasonable administrative fee, not to exceed $100 or 5% of the total institutional charges, whichever is less (See pg. 3-94 for more information). A school may also exclude the documented cost *to the school* of any unreturnable equipment issued to the student or any returnable equipment that was not returned in good condition within 20 days after withdrawal. (See pg. 3-94 for more details.)

Institutional charges

The Federal Refund Policy also follows the same requirements as the *pro rata* refund policy in the following areas: (1) determination of institutional charges, (2) treatment of "passed-through" room charges, and (3) treatment of group health insurance fees. (See pg. 3-85 for more information.) For the sake of consistency, the Department recommends that schools use the requirements for *pro rata* refunds for determining the point in time of a student's withdrawal; however, schools are not required to do so. (See pg. 3-93.)

REPAYMENT CALCULATIONS

A different situation can occur— repayment —when a student received SFA funds as a disbursement to cover living expenses. Living expenses are defined as education costs above and beyond the tuition and fee charges, including items such as room and board (if the student does not contract with the school), books, supplies, transportation, and child care expenses.

Living expenses incurred

When a student who received directly an SFA disbursement ceases attendance, the school must determine whether the student must repay a portion of the disbursement. If the school finds that the student's living expenses incurred up to the time of withdrawal exceed the amount of funds disbursed, the student does not owe a repayment. However, if the disbursement was greater than the student's living expenses up to the withdrawal date, the student must repay the excess amount. (If the repayment owed is $100 or less, the student is not required to repay it.)

Remember, as with refunds, FWS wages are excluded because they have been earned. And FFEL and Direct Loan funds are not counted in figuring the amount of the overpayment (because the student is already obligated to repay these funds to the lender).

The school is responsible for notifying the student of the amount owed, for billing the student, and for collecting the overpayment. However, a school is not liable for the owed amount if it is cannot collect the repayment from the student. In such a case, the student is ineligible for further SFA funds, and must be reported as being in overpayment status on the financial aid transcript.

Referring overpay-ments

A student who fails to repay Pell or FSEOG funds can be referred to the Department for collection, unless the overpayment is the result of school error. The Department will refer the account to its collection agent, and the student's record will be placed in a subsystem database match of the Central Processing System (CPS). Until the overpayment is resolved, the CPS will flag any future FAFSA filed by that student; on the resulting output record, comments will explain the overpayment owed and will instruct the school and student in resolving the matter. See *The Verification Guide* for information on referring overpayment cases to the Department.

DISTRIBUTING REFUNDS AND REPAYMENTS

Refund and repayment amounts must be distributed according to a specific order of priority prescribed in the law and regulations. (Previously, schools determined their own SFA refund and repayment distribution policies.) The school's refund or repayment distribution may not deviate from the prescribed order, even if the school's agreement with a State or private agency requires the school to return a specific percentage of the aid provided by that agency. **Federal laws and regulations supersede all other requirements and must be followed. Refunds** on behalf of SFA recipients must be distributed in the following order—

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other SFA Programs
12. Other Federal, State, private, or institutional sources of aid
13. The student*

Note: Effective July 1, 1995, schools are required to return refunds to a student's unsubsidized Federal Direct Stafford Loan balances before returning funds to a Subsidized Federal Direct Stafford Loan balance.

Repayments from SFA recipients must be distributed as follows—

1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other SFA Programs
5. Other Federal, State, private, or institutional sources of aid

Funds returned to any SFA program may not exceed those received from that program. However, in some cases, the holder of the loan will pay off a portion of the loan balance.

*Remember that a portion of the refund can be paid to the student **only if funds remain after** the refund has been returned to the SFA programs and other sources in order.

If the amount of an FFEL loan that is delivered to a student (the net amount) is repaid in full within 120 days of the date the lender disbursed the loan, the holder of the loan must return any deducted origination fees and insurance premiums to the student's account. Schools should refer to the following chart to determine the portion of a loan that must be repaid with a borrower's refund.

Refund made within 120 days of loan disbursement date	*Refund made after 120 days of loan disbursement date*
Return net amount of loan	**Return gross amount of loan**

In both cases, if the school returns the required amount of the refund, the entire outstanding balance of the loan will be eliminated. After making the refund to the lender, any additional refund amounts should be distributed to other sources of aid in the required order.

A school may use its own funds to eliminate remaining FFEL balances for a period of enrollment if a refund results in the school returning less than the amount needed to eliminate the loan balance. A school may contribute its own funds at the time of the distribution of the refund only. A school may not use its own funds to eliminate any portion of a loan balance after the refund has been made, or if no refund is required. For unsubsidized loans where interest has already accrued when the student withdraws, a school may pay off the accrued interest only if the school determines the exact amount of the accrued interest for the period of enrollment. Remember that a school may only return funds to repay a loan up to the amount listed above.

TIMEFRAMES FOR RETURN OF FUNDS

Refunds to SFA program accounts must be returned within 30 days of the date the student officially withdraws, is expelled, takes an unapproved leave of absence, fails to return from an approved leave of absence, or in the case of an unofficial withdrawal, within 30 days of the date the school determines that the student has unofficially withdrawn.* **Refunds to a lender** (under the Stafford, SLS, or PLUS programs) must be returned in accordance with the FFEL regulations (34 CFR part 682). **A repayment** must be returned to the appropriate SFA program accounts within 30 days of the date the student repays the funds.

*Remember, the school is also required to determine that the student has unofficially withdrawn within a certain amount of time. See pg. 3-82.

The school is alsc required to pay any refund owed to the student (if any funds remain after distribution to all higher priority sources) within the following timeframes.

- **Official withdrawal or expulsion**—within 30 days after the withdrawal date.
- **Unofficial withdrawal**—within 30 days of (1) the date of determination, (2) the end of the term, or (3) the end of the period of enrollment, whichever is earlier.
- **Does not return after approved leave of absence**—within 30 days of either (1) the end of the leave of absence, or (2) the date the student notifies the school that he or she will not be returning, whichever is earlier.
- **Unapproved leave of absence**—within 30 days after the last recorded date of attendance.

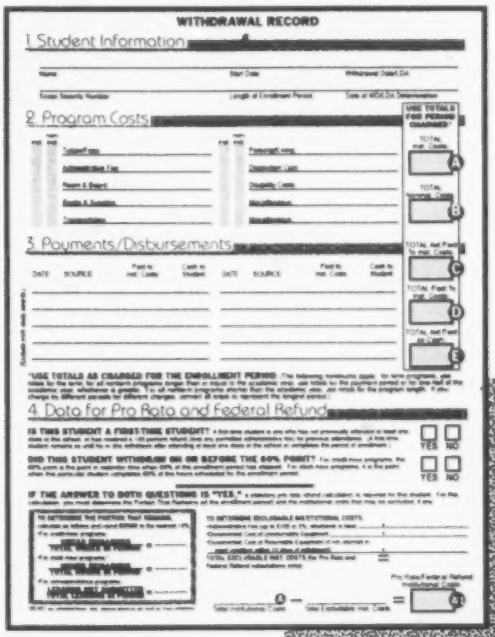
Refund & Repayment

Case Studies

Updated for 1995-96

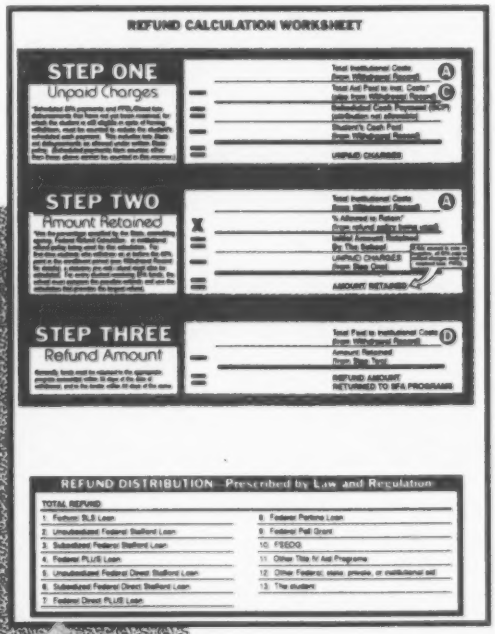
WITHDRAWAL RECORD (WR)

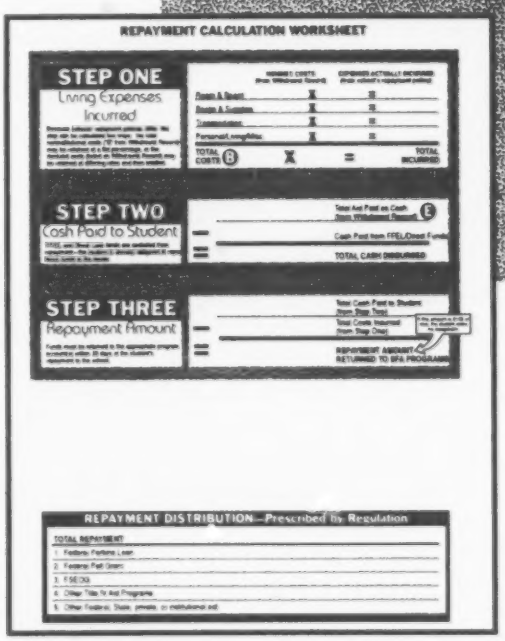
Completed properly when a student withdraws, this document provides all the data needed to calculated refunds and repayments and organizes it so that it's easy to use.



REFUND CALCULATION WORKSHEET

Completed using the figures from the WR, this Worksheet calculates unpaid charges and refunds, and can be used for non*pro rata* refund policies (except the Federal Refund Calculation.





REPAYMENT CALCULATION WORKSHEET

This Worksheet uses figures from the WR to calculate the repayment owed by the student.

PLUS, Pro Rata and Federal Refund Calculation Worksheets

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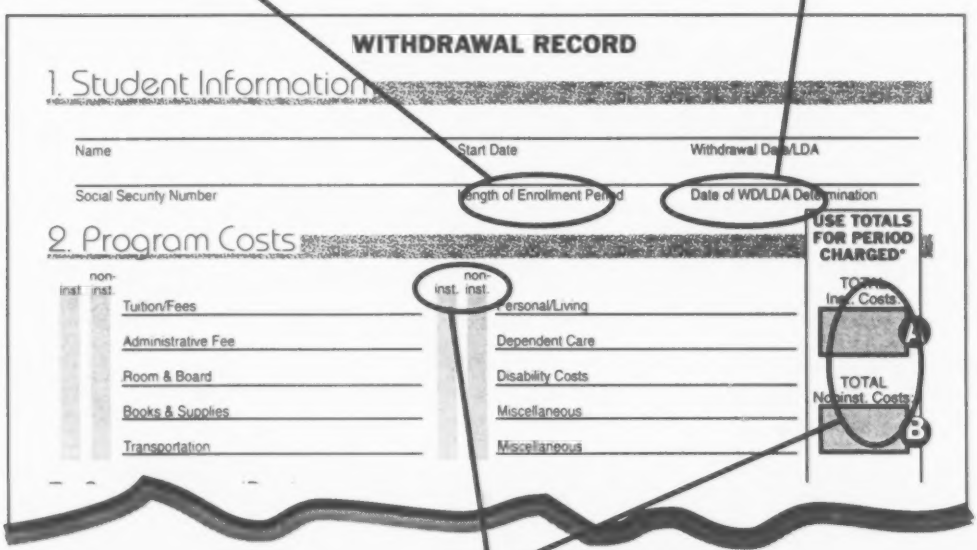
Using The Withdrawal Record

Each case study begins with a Withdrawal Record (WR). Filled out properly, the WR easily organizes all the information needed to calculate refunds and repayments. The diagrams on these two pages describe how the WR is used and summarizes some important refund and repayment requirements. A blank WR and blank Worksheets appear on pp. 3-108 through 3-112, followed by two case studies showing the calculations of two regular (i.e., non*pro rata)* refunds and a repayment. The last three case studies are *pro rata* refund examples.

Length of Enrollment Period. Use the enrollment period for which the student was charged, in keeping with the following minimums. For term programs, the minimum enrollment period is the term. For nonterm programs longer than or equal to an academic year, the minimum enrollment period is either the payment period or one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, the minimum period is the program length.

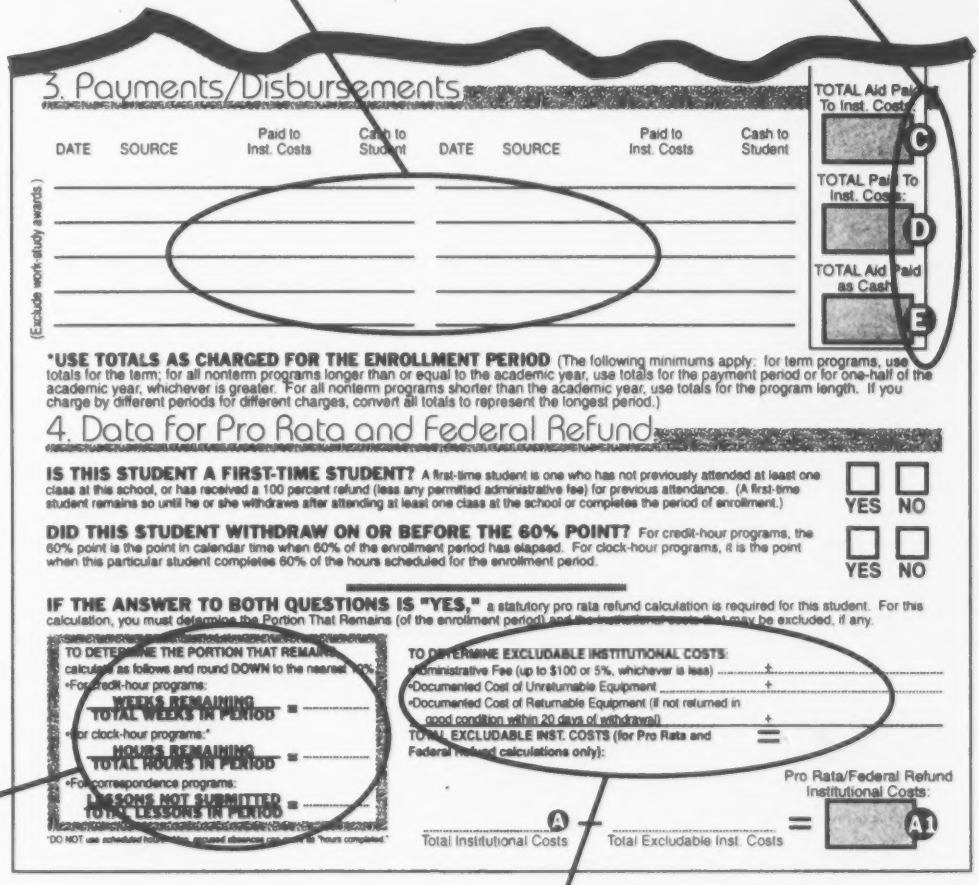
Date of WD/LDA Determination. Generally, all SFA refunds must be completed within 30 days of the student's withdrawal. However, the school may not discover an unofficial withdrawal until well after that deadline. In such cases, the deadline for return of funds turns on the date of the school's determination.



Total Institutional and Non-institutional Costs. School charges, such as tuition and fees, are treated differently from expenses that are not charged by the school. (For a discussion of what constitutes an institutional vs. a noninstitutional charge, see pg. 3-84.)

Aid Received.
This section records all aid and student payments received by the school, except work-study aid. For the loan programs, the amounts *received* are used (the origination and insurance fees are excluded). Refunds apply only to funds used to pay institutional charges (including student payments), while repayments deal only with aid that is disbursed directly to the student. Therefore, it's important to know which funds paid institutional costs and which were disbursed in cash (or check) to the student for noninstitutional costs. (If part of a payment went to the school while the remainder was disbursed to the student, the exact amount that went to each destination must be recorded.)

Aid Totals.
Total C should include **all** aid (not just SFA funds) paid to school charges. Total D should reflect **all** amounts (including student payments) paid to school charges. Total E should include **all** aid (not just SFA funds) paid to the student in cash.



3. Payments/Disbursements

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student

(Exclude work-study awards.)

TOTAL Aid Paid To Inst. Costs: C

TOTAL Paid To Inst. Costs: D

TOTAL Aid Paid as Cash: E

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☐ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☐ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the [illegible] costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round DOWN to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours/days, prorated distances, credits, or "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) ..... +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs: A1

A (Total Institutional Costs) − (Total Excludable Inst. Costs) = A1

Portion that Remains for *Pro Rata*. The "portion that remains" figure is needed for *pro rata* calculations.

Special Determinations for *Pro Rata* and Federal Refund Calculation. If a student qualifies for a *pro rata* or Federal Refund calculation, the excludable costs (according to the regulatory rules) are needed for a refund calculation.

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WARNING: DO NOT use without the accompanying instructions!!

WITHDRAWAL RECORD

1. Student Information

Name | Start Date | Withdrawal Date/LDA

Social Security Number | Length of Enrollment Period | Date of WD/LDA Determination

2. Program Costs

USE TOTALS FOR PERIOD CHARGED*

inst.	non-inst.		inst.	non-inst.	
		Tuition/Fees			Personal/Living
		Administrative Fee			Dependent Care
		Room & Board			Disability Costs
		Books & Supplies			Miscellaneous
		Transportation			Miscellaneous

TOTAL Inst. Costs: (A)

TOTAL Noninst. Costs: (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student

TOTAL Aid Paid To Inst. Costs: (C)

TOTAL Paid To Inst. Costs: (D)

TOTAL Aid Paid as Cash: (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.) ☐ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period. ☐ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) ..... +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs: (A1)

(A) Total Institutional Costs — Total Excludable Inst. Costs =

1995-96
United States Department of Education
Student Financial Aid Programs

REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record)	A
−	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	Student's Cash Paid (from Withdrawal Record)	
=	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation , or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	Total Institutional Costs (from Withdrawal Record)	A
X	% Allowed to Retain* (from refund policy being used)	
=	**Initial Amount Retained By The School**	
−	UNPAID CHARGES (from Step One)	
=	**AMOUNT RETAINED**	

If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	Total Paid to Institutional Costs (from Withdrawal Record)	D
−	Amount Retained (from Step Two)	
=	**REFUND AMOUNT RETURNED TO SFA PROGRAMS**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board		X	=
Books & Supplies		X	=
Transportation		X	=
Personal/Living/Misc.		X	=
TOTAL COSTS (B)		X	= TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	Total Aid Paid as Cash (from Withdrawal Record) (E)
−	Cash Paid from FFEL/Direct Funds
=	TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	Total Cash Paid to Student (from Step Two)
−	Total Costs Incurred (from Step One)
=	REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

If this amount is $100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	Total Institutional Costs (from Withdrawal Record)	A
−	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	Student's Cash Paid (from Withdrawal Record)	
=	**UNPAID CHARGES**	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	Federal Refund Calculation Inst. Costs (from Withdrawal Record)	A1
X	% to be Refunded (from the regulatory policy)	
=	**REFUND AMOUNT RETURNED TO SFA PROGRAMS**	

***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student, because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan	8. Federal Perkins Loan
2. Unsubsidized Federal Stafford Loan	9. Federal Pell Grant
3. Subsidized Federal Stafford Loan	10. FSEOG
4. Federal PLUS Loan	11. Other Title IV Aid Programs
5. Unsubsidized Federal Direct Stafford Loan	12. Other Federal, state, private, or institutional aid
6. Subsidized Federal Direct Stafford Loan	13. The student
7. Federal Direct PLUS Loan	

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

Total Institutional Costs (from Withdrawal Record)	A
− Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
= Student's Scheduled Cash Payment (SCP)	
− Student's Cash Paid (from Withdrawal Record)	
= UNPAID CHARGES	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

Pro Rata Institutional Costs (from Withdrawal Record)	A1
X % to be Refunded (from the Portion That Remains)	
= Initial Refund Amount	
− Unpaid Charges (from Step One)	
= ACTUAL REFUND RETURNED TO SFA PROGRAMS	

If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND

1. Federal SLS Loan
2. Unsubsidized Federal Stafford Loan
3. Subsidized Federal Stafford Loan
4. Federal PLUS Loan
5. Unsubsidized Federal Direct Stafford Loan
6. Subsidized Federal Direct Stafford Loan
7. Federal Direct PLUS Loan
8. Federal Perkins Loan
9. Federal Pell Grant
10. FSEOG
11. Other Title IV Aid Programs
12. Other Federal, state, private, or institutional aid
13. The student

NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #1

•Term school
•Non-pro rata refund
•Unpaid charges due

SCHOOL PROFILE

Cottonwood University is a residential school offering two- and four-year programs on a semester term system. CU participates in the Pell, FFEL, and campus-based programs. Each semester is 15 weeks long, and the school uses the following refund policy, according to State law:

Student Withdraws:	School Retains:
Before classes	0% (Full refund)
First two weeks	20%
Third or Fourth week	30%
Fifth or Sixth week	50%
Seventh or Eighth week	75%
Ninth or Tenth week	90%
After Tenth week	100% (No refund)

For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the remaining weeks in the term.

STUDENT PROFILE

Russlyn McCullough enrolled as a freshman for the Fall Semester at Cottonwood University. She moved into the dorms. Her costs for the semester are as follows (institutional costs are asterisked):

Tuition & Fees*	$2400
Room & Board*	$3090
Books & Supplies	$600
Transportation	$850
Personal Expenses	$900

Russlyn received the following financial aid for the academic year:

Federal Pell	$2150
FSEOG	$1100
Federal Stafford	$2500
Federal Work-Study	$1500
CU Scholarship	$1000
Rotary Scholarship•	$500

•(for 1st semester only)

Classes started on August 30, and Russlyn officially withdrew on November 3, in the tenth week.

DISBURSEMENTS AND PAYMENTS

CU received Russlyn's financial aid for the semester in the following order and amounts: $1075 Pell, $500 CU scholarship, $550 FSEOG, $1163 Stafford, and $500 Rotary scholarship. All these amounts, plus Russlyn's $500 cash payment, were credited to her account. No cash was disbursed, but Russlyn did earn FWS each week.

IMPORTANT POINTS

Although Russlyn is a first-time student, because she withdrew after the 60% point in the term, a statutory pro rata calculation is not required. Because CU charges by the term, the costs and aid received for the semester are used on the WR. Note that origination and insurance fees were deducted from the Stafford amount reported on the WR, and that Russlyn's FWS award and earnings do not appear anywhere on the WR, because earnings from work cannot be recovered.

Because Russlyn's financial aid was not sufficient to pay her total school charges, unpaid charges exist that will affect the refund amount. No repayment calculation is necessary because Russlyn did not receive a cash disbursement of SFA. Refund distribution is prescribed by law, and CU returns the federal SFA funds first to the Stafford lender.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Russlyn McCullough	8/30	OFFICIAL—11/03
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	15-week semester	11/03

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	2400		✓	Personal/Living	900
		Administrative Fee				Dependent Care	
✓		Room & Board	3090			Disability Costs	
	✓	Books & Supplies	600			Miscellaneous	
	✓	Transportation	850			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 5490 (A)

TOTAL Noninst. Costs: 2350 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Pell	1075			Rotary	500	
	C.U.	500					
	student	500					
	FSEOG	550					
	Stafford	1163					

TOTAL Aid Paid To Inst. Costs: 3788 (C)

TOTAL Paid To Inst. Costs: 4288 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☐ YES ☑ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

..... (A) Total Institutional Costs — ..... Total Excludable Inst. Costs = (A1)

REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	5490	Total Institutional Costs (from Withdrawal Record)	A
−	3788	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	1702	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
−	500	Student's Cash Paid (from Withdrawal Record)	
=	1202	**UNPAID CHARGES**	

STEP TWO

Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation , or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

	5490	Total Institutional Costs (from Withdrawal Record)	A
X	90%	% Allowed to Retain* (from refund policy being used)	
=	4941	**Initial Amount Retained By The School**	
−	1202	UNPAID CHARGES (from Step One)	
=	3739	**AMOUNT RETAINED**	

If this amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

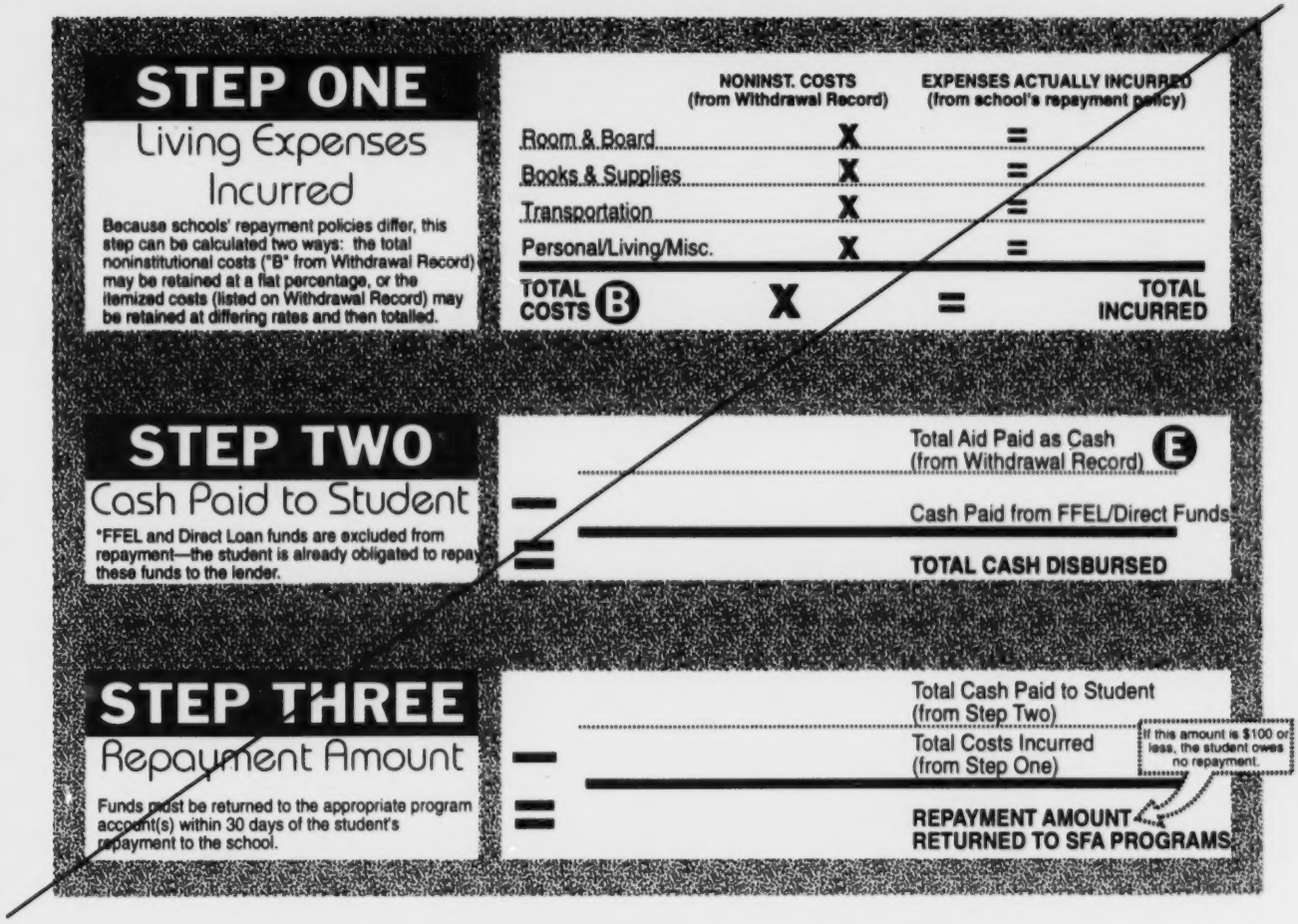
	4288	Total Paid to Institutional Costs (from Withdrawal Record)	D
−	3739	Amount Retained (from Step Two)	
=	549	**REFUND AMOUNT RETURNED TO SFA PROGRAMS**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 549

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	549	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board X =
Books & Supplies X =
Transportation X =
Personal/Living/Misc. X =
TOTAL COSTS B X = TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
Cash Paid from FFEL/Direct Funds
TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
Total Costs Incurred (from Step One)
If this amount is $100 or less, the student owes no repayment.
REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

NOTE: This State calculation treats unpaid charges as required by regulation. This issue is currently under litigation.

Case Study #2

•Term school
•Non-pro rata refund
•No unpaid charges due

SCHOOL PROFILE

Buchanan Community College offers one- and two-year programs on a quarter term system. BCC participates in the Pell and FFEL programs. There is no on-campus housing; books can be purchased at any local bookstore. Each quarter is 11 weeks and BCC's refund policy is based on State law:

Student Completes:	School Retains:
Less than 15%	20%
16-30%	45%
31-50%	65%
51-80%	85%
81% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred (in keeping with the local bookstores' return policies). Other living expenses are prorated based on the percentage of the term completed. BCC has all student loans disbursed by quarter, rather than in only two disbursements.

STUDENT PROFILE

Terry Christiansen enrolled as a sophomore for the Fall Quarter at BCC. He rented an off-campus apartment, and his costs for the quarter are as follows (institutional costs are asterisked):

Tuition & Fees*	$650
Room & Board	$1100
Books & Supplies	$210
Transportation	$300
Personal Expenses	$450

Terry received the following financial aid for the academic year:

Federal Pell	$2200
Federal Stafford	$2625
State Grant (non-SSIG)	$1000

Classes started on August 29, and Terry withdrew unofficially during the term. At the end of the quarter, BCC records showed that Terry took an exam on September 18. With no further record of attendance for Terry, BCC used that date as Terry's last date of attendance.

DISBURSEMENTS AND PAYMENTS

BCC received Terry's State grant disbursement of $334 and credited it to his account. When his $814 Stafford disbursement came in, $316 went to the school account and the rest was paid to Terry in cash. The $734 Pell disbursement was also paid in cash to Terry.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Terry. In completing the WR, BCC uses the costs and aid received for the quarter. (The origination and insurance fees have been deducted from the Stafford amount reported on the WR.)

Because Terry's financial aid paid his institutional costs, there are no unpaid charges. In the repayment calculation, living expenses incurred are calculated using the rates specified in the school's policy, based on the number of weeks Terry attended. It is BCC's policy to count a 4-day week as a full week, so Terry attended 3 weeks. (To figure the percentage incurred, BCC uses a ratio of weeks completed ÷ total weeks in enrollment period, or 3 ÷ 11, which equals 27%. This percentage is used on the Repayment Calculation Worksheet, for all living expenses except books & supplies, which were incurred at the rate of 50% as noted in the School Profile above.)

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Terry Christiansen	8/30	UNOFFICIAL—9/17
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	11-week quarter	11/15

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	650		✓	Personal/Living	450
		Administrative Fee				Dependent Care	
	✓	Room & Board	1100			Disability Costs	
	✓	Books & Supplies	210			Miscellaneous	
	✓	Transportation	300			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 650 (A)

TOTAL Noninst. Costs: 2060 (B)

TOTAL Aid Paid To Inst. Costs: 650 (C)

TOTAL Paid To Inst. Costs: 650 (D)

TOTAL Aid Paid as Cash: 1232 (E)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	State	334					
	Stafford	316	498				
	Pell		734				

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS,
calculate as follows and round **DOWN** to the nearest 10%.

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

(A) Total Institutional Costs − ..... Total Excludable Inst. Costs = (A1)

REFUND CALCULATION WORKSHEET

STEP ONE
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

650	Total Institutional Costs (from Withdrawal Record)	A
− 650	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
= 0	**Scheduled Cash Payment (SCP)** (attribution not allowable)	
− 0	Student's Cash Paid (from Withdrawal Record)	
= 0	**UNPAID CHARGES**	

STEP TWO
Amount Retained

*Use the percentage specified by the State, accrediting agency, Federal Refund Calculation , or institutional refund policy being used for this calculation. For first-time students who withdraw on or before the 60% point in the enrollment period (see Withdrawal Record for details), a statutory *pro rata* refund must also be calculated. For every student receiving SFA funds, the school must compare the possible refunds and use the calculation that provides the largest refund.

650	Total Institutional Costs (from Withdrawal Record)	A
X 45%	% Allowed to Retain* (from refund policy being used)	
= 293	**Initial Amount Retained By The School**	
− 0	UNPAID CHARGES (from Step One)	
= 293	**AMOUNT RETAINED**	

If the amount is zero or negative, all SFA paid to school charges must be returned (exc. FWS).

STEP THREE
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

650	Total Paid to Institutional Costs (from Withdrawal Record)	D
− 293	Amount Retained (from Step Two)	
= 357	**REFUND AMOUNT RETURNED TO SFA PROGRAMS**	

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 357

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	357	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET

STEP ONE
Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NONINST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)		
Room & Board	1100	X	27%	=	297
Books & Supplies	210	X	50%	=	105
Transportation	300	X	27%	=	81
Personal/Living/Misc.	450	X	27%	=	122
TOTAL COSTS (B)		X		=	605 TOTAL INCURRED

STEP TWO
Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	1232	Total Aid Paid as Cash (from Withdrawal Record) (E)
−	498	Cash Paid from FFEL/Direct Funds*
=	734	TOTAL CASH DISBURSED

STEP THREE
Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	734	Total Cash Paid to Student (from Step Two)
−	605	Total Costs Incurred (from Step One)
=	129	REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

If this amount is $100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT	129
1. Federal Perkins Loan	
2. Federal Pell Grant	129
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

Case Study #3

•Non-term school
•Statutory pro rata refund
•Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI uses its State refund guidelines:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local book-stores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Wendy Loggins enrolled in a 900-hour program at Copperfield. She rents an apartment, and her costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$4500
Room & Board	$2730
Books & Supplies	$630
Transportation	$900
Personal Expenses	$1350

Wendy received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$3600

Wendy began her program on October 2 and officially withdrew on February 18 of the next year, after completing 450 clock hours (50% of the program). CTI calculated both a State refund and a statutory pro rata refund, and found that the statutory pro rata refund was the largest.

DISBURSEMENTS AND PAYMENTS

Wendy's Stafford disbursement of $1221 went to pay school charges, as did the Pell disbursement of $1150 and the PLUS disbursement of $1674. The school did not disburse any cash to Wendy.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, CTI uses the costs and amounts paid for the entire program (which is the enrollment period).

Wendy has an unpaid balance, but it will be treated differently under the statutory pro rata calculation—unpaid charges are subtracted from the initial refund amount. No repayment is calculated because no cash was disbursed. The refund is distributed first to Stafford and then to PLUS.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Wendy Loggins	10/04	OFFICIAL—2/18
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	900-hr/30-wk. acad year	2/18

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	4500		✓	Personal/Living	1350
		Administrative Fee				Dependent Care	
	✓	Room & Board	2730			Disability Costs	
	✓	Books & Supplies	630			Miscellaneous	
	✓	Transportation	900			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 4500 (A)

TOTAL Noninst. Costs: 5610 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	1221					
	Pell	1150					
	PLUS	1674					

TOTAL Aid Paid To Inst. Costs: 4045 (C)

TOTAL Paid To Inst. Costs: 4045 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = 450 / 900
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use *scheduled* hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) ..... +
- Documented Cost of Unreturnable Equipment ..... + 0
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): =

Pro Rata/Federal Refund Institutional Costs:

4500 (A) — 0 = 4500 (A1)

Total Institutional Costs — Total Excludable Inst. Costs

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	4500	Total Institutional Costs (from Withdrawal Record)	A
−	4045	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	455	**Student's Scheduled Cash Payment (SCP)**	
−	0	Student's Cash Paid (from Withdrawal Record)	
=	455	**UNPAID CHARGES**	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	4500	Pro Rata Institutional Costs (from Withdrawal Record)	A1
X	50%	% to be Refunded (from the Portion That Remains)	
=	2250	**Initial Refund Amount**	
−	455	Unpaid Charges (from Step One)	
=	1795	**ACTUAL REFUND RETURNED TO SFA PROGRAMS**	

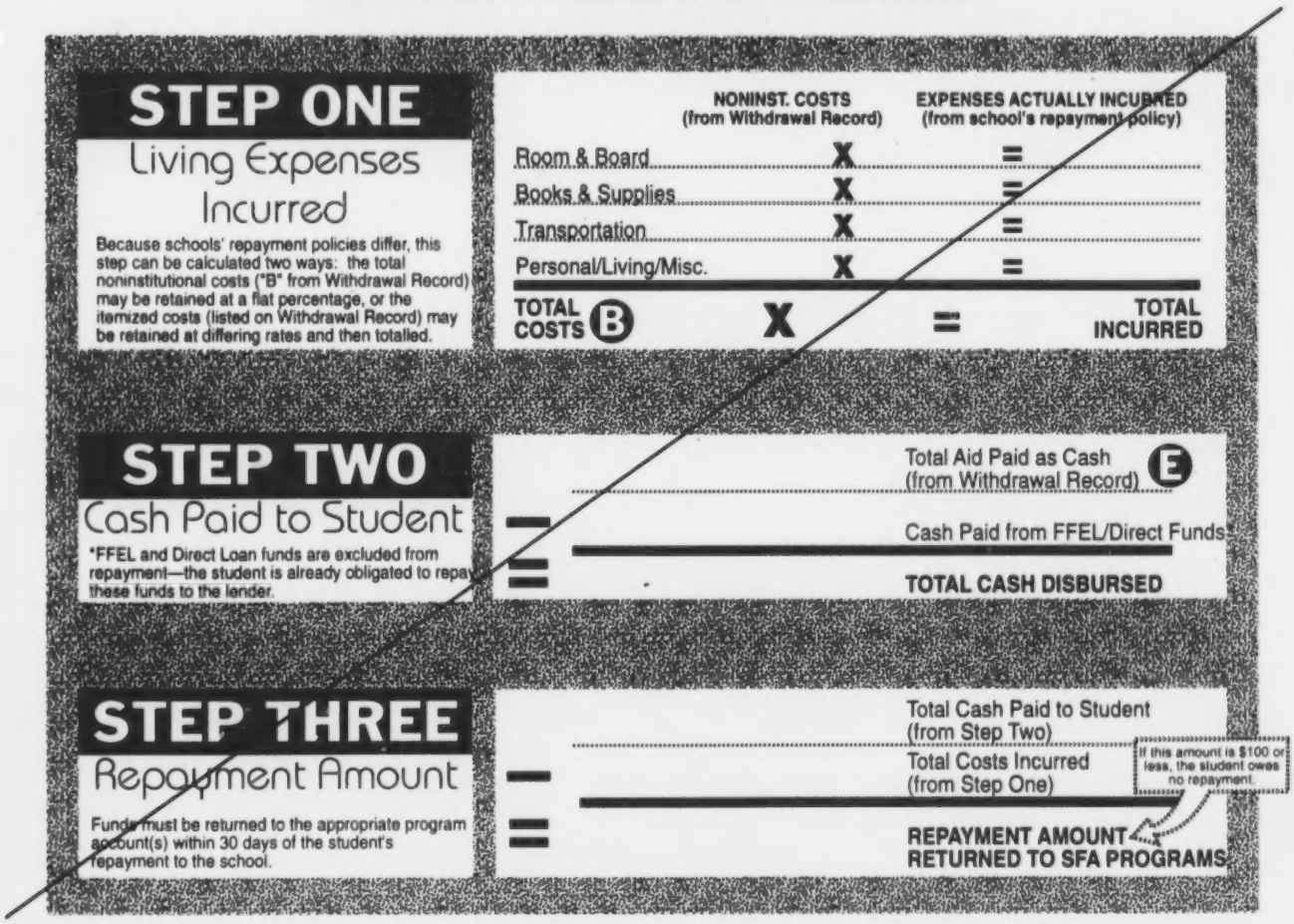
If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1795

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	1221	10. FSEOG	
4. Federal PLUS Loan	574	11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board X =
Books & Supplies X =
Transportation X =
Personal/Living/Misc. X =
TOTAL COSTS B X = TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
Cash Paid from FFEL/Direct Funds*
TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
Total Costs Incurred (from Step One)
If this amount is $100 or less, the student owes no repayment.
REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #4

•Non-term school
•Federal Refund Calculation
•Unpaid charges due

SCHOOL PROFILE

Copperfield Technical Institute offers 900 and 1200 clock-hour programs, and charges for the entire program at the time of enrollment. CTI participates in the Pell and FFEL programs. The 900-hour program lasts 30 weeks (an academic year) and is divided into two payment periods, 450 hours each. The 1200-hour program is 40 weeks long and is divided into three payment periods: 450 hours, 450 hours, and 300 hours. CTI's institutional refund policy is as follows:

Student Completes:	School Retains:
Less than 10%	40%
11-30%	60%
31-50%	80%
51% or more	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed.

STUDENT PROFILE

Tom Servo enrolled as a sophomore in a 1200-hour program at Copperfield. He lives at home with his parents, and his costs for the program are as follows (institutional costs are asterisked):

Tuition & Fees*	$6000
Room & Board	$3640
Books & Supplies	$850
Transportation	$1200
Personal Expenses	$1850

Tom received the following financial aid for the academic year:

Federal Pell	$2300
Federal Stafford	$2625
Federal PLUS	$4000

Tom began his program on January 11 and last attended class on May 3, after completing 420 clock hours (35% of the program). There is no state or accrediting agency policy, and pro rata does not apply, so CTI compared its institutional refund to the Federal Refund Policy. The Federal Refund was larger.

DISBURSEMENTS AND PAYMENTS

Tom's Pell disbursement of $1150 was applied to school charges, as were the first disbursements of both the Stafford and the PLUS loans, in the amounts of $928 and $1414 respectively (CTI requested that the lender disburse by payment period). No cash was disbursed.

IMPORTANT POINTS

Because he is not a first-time student, a statutory pro rata calculation is not required for Tom. Because CTI is located in a State that does not have a refund policy, and CTI's accrediting agency's policy has not been approved by the Department, CTI must compare its institutional refund policy to the Federal Refund Calculation to determine the largest available refund. In Tom's case, the Federal Refund Calculation resulted in a larger refund.

In completing the WR, CTI uses the costs and amounts paid for the entire program. Tom withdrew after completing 35% of the enrollment period (after the first 25% but before the first 50% of the period), so he is due a 25% refund of his institutional charges. (CTI can exclude a $100 administrative fee before assessing the 25%.) No repayment is calculated because no cash was disbursed.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Tom Servo	1/11	UNOFFICIAL—5/03
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	1200-hr program	10/18

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	6000		✓	Personal/Living	1850
		Administrative Fee				Dependent Care	
	✓	Room & Board	3640			Disability Costs	
	✓	Books & Supplies	850			Miscellaneous	
	✓	Transportation	1200			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 6000 (A)

TOTAL Noninst. Costs: 7540 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Stafford	928					
	Pell	1150					
	PLUS	1414					

TOTAL Aid Paid To Inst. Costs: 3492 (C)

TOTAL Paid To Inst. Costs: 3492 (D)

TOTAL Aid Paid as Cash: 0 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☐ YES ☑ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = ...
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) + 100
- Documented Cost of Unreturnable Equipment +
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) +

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): = 100

Pro Rata/Federal Refund Institutional Costs:

6000 (A) — 100 = 5900 (A1)

Total Institutional Costs — Total Excludable Inst. Costs

FEDERAL REFUND CALCULATION WORKSHEET

STEP ONE*
Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	6000	Total Institutional Costs (from Withdrawal Record) (A)
−	3492	Total Aid Paid to Inst. Costs* (also from Withdrawal Record) (C)
=	2508	**Scheduled Cash Payment (SCP)** (attribution not allowable)
−	0	Student's Cash Paid (from Withdrawal Record)
=	2508	**UNPAID CHARGES**

STEP TWO
Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	5900	Federal Refund Calculation Inst. Costs (from Withdrawal Record) (A1)
X	25%	% to be Refunded (from the regulatory policy)
=	1475	**REFUND AMOUNT RETURNED TO SFA PROGRAMS**

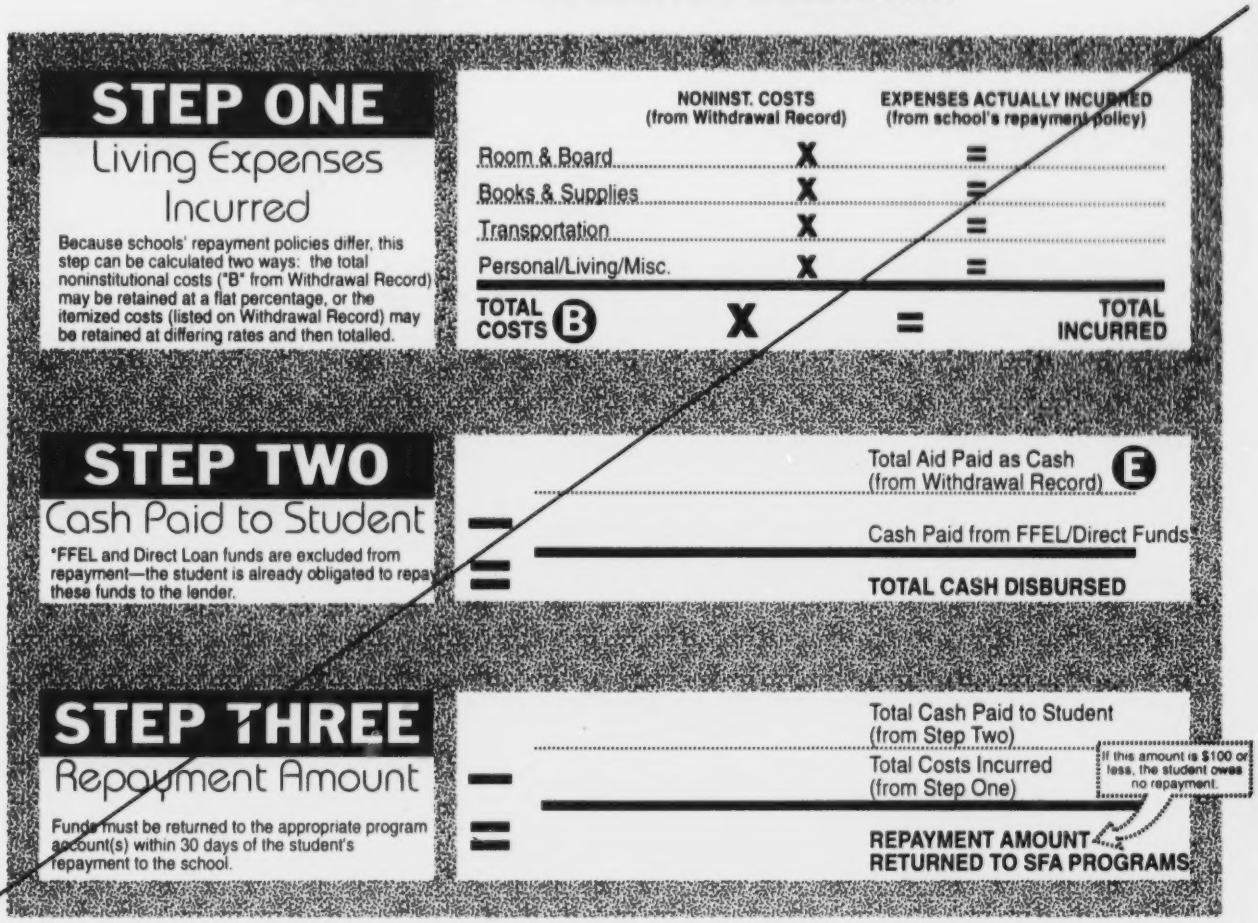
***NOTE:** Because calculating a Federal Refund in this manner does not show the amount retained by the school, the subtraction of unpaid charges from that amount is also not shown. However, the unpaid charges amount must still be calculated for the student, because the refund process may result in the school not keeping the full amount it is allowed to retain under the Federal Refund Policy. In such a case, the school may collect the remaining balance from the student (the unpaid charges amount).

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 1475

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	1475	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET


STEP ONE
Living Expenses Incurred
Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.
NONINST. COSTS (from Withdrawal Record)
EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board X =
Books & Supplies X =
Transportation X =
Personal/Living/Misc. X =
TOTAL COSTS B X = TOTAL INCURRED
STEP TWO
Cash Paid to Student
*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.
Total Aid Paid as Cash (from Withdrawal Record) E
Cash Paid from FFEL/Direct Funds
TOTAL CASH DISBURSED
STEP THREE
Repayment Amount
Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.
Total Cash Paid to Student (from Step Two)
Total Costs Incurred (from Step One)
If this amount is $100 or less, the student owes no repayment.
REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

NO REPAYMENT—No Cash Disbursed

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT
1. Federal Perkins Loan
2. Federal Pell Grant
3. FSEOG
4. Other Title IV Aid Programs
5. Other Federal, State, private, or institutional aid

Case Study #5

•Term school
•Statutory pro rata refund
•No unpaid charges due

SCHOOL PROFILE

The Rigby Academy offers two- and four-year programs and participates in the Pell, FFEL, and campus-based programs. The academic year is divided into three quarter terms, each 10 weeks long. Rigby uses its State policy:

Student Withdraws:	School Retains:
In the first week:	10%
Second or third week:	40%
Fourth week:	75%
After fourth week:	100% (No refund)

(In accordance with the law, students who don't begin classes receive a full refund.) For students who begin classes, 50% of the books and supplies allowance is considered incurred, in keeping with the local bookstores' return policies. Other living expenses are prorated based on the percentage of the program completed. Rigby charges a $60 administrative fee to all students; this charge is explained in the enrollment agreement.

STUDENT PROFILE

Robert Harbin enrolled in a two-year program at Rigby. His costs for the term are as follows (institutional costs are asterisked):

Tuition & Fees*	$1200
Administrative Fee*	$60
Room & Board	$1000
Books & Supplies	$205
Transportation	$250
Personal Expenses	$750

Robert received the following financial aid for the academic year:

Federal Pell	$1950
Federal Stafford	$2325
FSEOG	$1150
Federal Perkins	$850
Institutional Scholarship	$600

Classes began on February 22 and Robert officially withdrew in the fifth week. Under Rigby's policy, Robert would receive no refund. However, he is entitled to a statutory pro rata refund.

DISBURSEMENTS AND PAYMENTS

Robert's $300 cash payment and $960 of the Stafford disbursement were credited to the school's account; the remaining $121 of Stafford funds were disbursed in cash to Robert. Then, $650 from Pell, $384 from FSEOG, $283 from Perkins, and $200 of the institutional scholarship were also disbursed as cash to Robert.

IMPORTANT POINTS

In completing the WR for a statutory pro rata calculation, Rigby uses costs and amounts paid for the quarter. (Robert's Stafford was not disbursed by quarter, but in two equal installments instead. Even though a portion of this disbursement is intended for the second quarter, the total amount *received* must be used in the refund calculation.)

For a statutory pro rata calculation, Rigby may exclude an administrative fee up to $100 or 5% of the total institutional costs, because they charge such a fee up front and across the board. In the repayment calculation, total non-institutional costs are assessed at a flat 50%, because in this case the same rate applies to all the items.

WITHDRAWAL RECORD

1. Student Information

Name	Start Date	Withdrawal Date/LDA
Robert Harbin	2/22	OFFICIAL—3/28
Social Security Number	**Length of Enrollment Period**	**Date of WD/LDA Determination**
000-00-0000	10-week quarter	3/25

2. Program Costs

inst.	non-inst.			inst.	non-inst.		
✓		Tuition/Fees	1200	✓		Personal/Living	750
✓		Administrative Fee	60			Dependent Care	
	✓	Room & Board	1000			Disability Costs	
	✓	Books & Supplies	205			Miscellaneous	
	✓	Transportation	250			Miscellaneous	

USE TOTALS FOR PERIOD CHARGED*

TOTAL Inst. Costs: 1260 (A)

TOTAL Noninst. Costs: 2205 (B)

3. Payments/Disbursements

(Exclude work-study awards.)

DATE	SOURCE	Paid to Inst. Costs	Cash to Student	DATE	SOURCE	Paid to Inst. Costs	Cash to Student
	Student	300			Inst. Aid		200
	Stafford	960	121				
	Pell		650				
	FSEOG		384				
	Perkins		283				

TOTAL Aid Paid To Inst. Costs: 960 (C)

TOTAL Paid To Inst. Costs: 1260 (D)

TOTAL Aid Paid as Cash: 1638 (E)

***USE TOTALS AS CHARGED FOR THE ENROLLMENT PERIOD** (The following minimums apply: for term programs, use totals for the term; for all nonterm programs longer than or equal to the academic year, use totals for the payment period or for one-half of the academic year, whichever is greater. For all nonterm programs shorter than the academic year, use totals for the program length. If you charge by different periods for different charges, convert all totals to represent the longest period.)

4. Data for Pro Rata and Federal Refund

IS THIS STUDENT A FIRST-TIME STUDENT? A first-time student is one who has not previously attended at least one class at this school, or has received a 100 percent refund (less any permitted administrative fee) for previous attendance. (A first-time student remains so until he or she withdraws after attending at least one class at the school or completes the period of enrollment.)

☑ YES ☐ NO

DID THIS STUDENT WITHDRAW ON OR BEFORE THE 60% POINT? For credit-hour programs, the 60% point is the point in calendar time when 60% of the enrollment period has elapsed. For clock-hour programs, it is the point when this particular student completes 60% of the hours scheduled for the enrollment period.

☑ YES ☐ NO

IF THE ANSWER TO BOTH QUESTIONS IS "YES," a statutory pro rata refund calculation is required for this student. For this calculation, you must determine the Portion That Remains (of the enrollment period) and the institutional costs that may be excluded, if any.

TO DETERMINE THE PORTION THAT REMAINS, calculate as follows and round **DOWN** to the nearest 10%:

- For credit-hour programs: WEEKS REMAINING / TOTAL WEEKS IN PERIOD = 5 / 10
- For clock-hour programs:* HOURS REMAINING / TOTAL HOURS IN PERIOD = ...
- For correspondence programs: LESSONS NOT SUBMITTED / TOTAL LESSONS IN PERIOD = ...

*DO NOT use scheduled hours. Also, excused absences can count as "hours completed."

TO DETERMINE EXCLUDABLE INSTITUTIONAL COSTS:

- Administrative Fee (up to $100 or 5%, whichever is less) + ...
- Documented Cost of Unreturnable Equipment + 60
- Documented Cost of Returnable Equipment (if not returned in good condition within 20 days of withdrawal) + ...

TOTAL EXCLUDABLE INST. COSTS (for Pro Rata and Federal Refund calculations only): = 60

1260 (A) Total Institutional Costs − 60 Total Excludable Inst. Costs = 1200 (A1) Pro Rata/Federal Refund Institutional Costs

PRO RATA REFUND CALCULATION WORKSHEET

STEP ONE

Unpaid Charges

*Scheduled SFA payments and FFEL/Direct late disbursements that have not yet been received, for which the student is still eligible in spite of having withdrawn, must be counted to reduce the student's scheduled cash payment. This includes late State aid disbursements as allowed under written State policy. (Scheduled payments from sources other than those above cannot be counted in this manner.)

	1260	Total Institutional Costs (from Withdrawal Record)	A
−	960	Total Aid Paid to Inst. Costs* (also from Withdrawal Record)	C
=	300	**Student's Scheduled Cash Payment (SCP)**	
−	300	Student's Cash Paid (from Withdrawal Record)	
=	0	**UNPAID CHARGES**	

STEP TWO

Refund Amount

Generally, funds must be returned to the appropriate program account(s) within 30 days of the date of withdrawal, and to the lender within 60 days of the same.

	1200	Pro Rata Institutional Costs (from Withdrawal Record)	A1
X	50%	% to be Refunded (from the Portion That Remains)	
=	600	**Initial Refund Amount**	
−	0	Unpaid Charges (from Step One)	
=	600	**ACTUAL REFUND RETURNED TO SFA PROGRAMS**	

If this amount is negative, the school may bill the student for that amount. No refund is due.

REFUND DISTRIBUTION—Prescribed by Law and Regulation

TOTAL REFUND 600

1. Federal SLS Loan		8. Federal Perkins Loan	
2. Unsubsidized Federal Stafford Loan		9. Federal Pell Grant	
3. Subsidized Federal Stafford Loan	600	10. FSEOG	
4. Federal PLUS Loan		11. Other Title IV Aid Programs	
5. Unsubsidized Federal Direct Stafford Loan		12. Other Federal, state, private, or institutional aid	
6. Subsidized Federal Direct Stafford Loan		13. The student	
7. Federal Direct PLUS Loan			

REPAYMENT CALCULATION WORKSHEET

STEP ONE

Living Expenses Incurred

Because schools' repayment policies differ, this step can be calculated two ways: the total noninstitutional costs ("B" from Withdrawal Record) may be retained at a flat percentage, or the itemized costs (listed on Withdrawal Record) may be retained at differing rates and then totalled.

	NON-INST. COSTS (from Withdrawal Record)		EXPENSES ACTUALLY INCURRED (from school's repayment policy)
Room & Board		X	=
Books & Supplies		X	=
Transportation		X	=
Personal/Living/Misc.		X	=

TOTAL COSTS (B) 2205 X 50% = 1103 TOTAL INCURRED

STEP TWO

Cash Paid to Student

*FFEL and Direct Loan funds are excluded from repayment—the student is already obligated to repay these funds to the lender.

	1638	Total Aid Paid as Cash (from Withdrawal Record) (E)
−	121	Cash Paid from FFEL/Direct Funds*
=	1517	TOTAL CASH DISBURSED

STEP THREE

Repayment Amount

Funds must be returned to the appropriate program account(s) within 30 days of the student's repayment to the school.

	1517	Total Cash Paid to Student (from Step Two)
−	1103	Total Costs Incurred (from Step One)
=	414	REPAYMENT AMOUNT RETURNED TO SFA PROGRAMS

If this amount is $100 or less, the student owes no repayment.

REPAYMENT DISTRIBUTION—Prescribed by Regulation

TOTAL REPAYMENT	414
1. Federal Perkins Loan	414
2. Federal Pell Grant	
3. FSEOG	
4. Other Title IV Aid Programs	
5. Other Federal, State, private, or institutional aid	

SECTION SIX: AGREEMENTS BETWEEN SCHOOLS

Two or more institutions may enter into a contractual or a consortium agreement so that a student can continue to receive SFA funds while studying at a school or organization other than his or her "home" institution. (The home school is the one that will grant the student's degree or certificate.) The specific requirements for such agreements are discussed below.

CONTRACTUAL AGREEMENT

A contractual agreement is between eligible and ineligible schools* or organizations, as defined in Section One of this Chapter. Under such an agreement, the ineligible school provides, under written contract, a portion of the eligible school's educational program.

Portion of program provided by ineligible school

There is a limit on the portion of the program that can be given at the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school's accrediting agency or State agency (in the case of a public postsecondary vocational institution) must determine **and confirm in writing** that the agreement meets its standards for contracting out of education services.

*An eligible school may not contract with an ineligible school that has been terminated from SFA participation or has withdrawn from SFA participation while under a termination, show-cause, suspension, or similar type proceeding by a State licensing agency, accrediting agency, guaranty agency, SPRE, or the Department.

Home school maintains all records

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and delivery functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all records necessary to document student eligibility and receipt of aid. (See Section Eight of this Chapter for record requirements.)

Coursework must be accepted as if provided at the home school

The home school must give credit to the students in the contracted portion of the program on the same basis (in terms of instructional time) as if it provided that portion itself. It cannot be treated differently in any way. The underlying assumption of the contractual agreement is that the home school has found the other school's or organization's academic standards to be equivalent to its own, and a completely acceptable substitution for its own instruction. **Credits earned through contracted coursework must be treated exactly the same as those earned at the home school.** For instance, those credits must be counted (exactly as they were earned) when determining a student's completion of credential or degree requirements.

Examples of contractual agreements

"Contracted portion of an educational program" covers situations ranging from a "junior year abroad" program to a portion of a cosmetology program given by an ineligible cosmetology school under contract with an eligible community college or vocational-technical school. In the traditional academic community, a baccalaureate institution does not jeopardize its eligible programs if no more than one academic year is spent by students at an ineligible institution, such as a foreign institution under the junior year abroad concept. At schools that predominantly grant associate degrees, eligible programs are not jeopardized if students spend no more than one semester or one quarter studying under contract at an ineligible school. (Of course, students may exceed these limits and take up to 50% of the program at a separately owned school if the school's accrediting agency has approved the contractual agreement.)

CONSORTIUM AGREEMENT

A consortium agreement, which can exist between eligible schools only, can apply to all the SFA programs. Under such a written agreement, students may take courses at a school other than the "home" institution (the school where the student expects to receive a degree or certificate) and have those courses count toward the degree or certificate at the home school. The home school must give credit for the courses taken at the other school(s) on the same basis as it would for coursework taken at the home school; it cannot be treated differently in any way. The underlying assumption of the consortium agreement is that the home school has found the other school's academic standards to be equivalent to its own and a completely acceptable substitution for its own instruction.

Elements of a consortium agreement

There is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or State agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, certain information should be included in all agreements, such as which school will grant the degree or certificate, what the student's tuition, fees, and room and board costs are at each school, and what the student's enrollment status will be at each school. The agreement should also include procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and distributing SFA refunds. The school paying the student must return SFA funds if required. For details on how agreements affect Federal Pell Grant calculations, see Chapter Four of this *Handbook*.

Effective date of the agreement

The agreement becomes effective for the payment period in which it is signed; however, it can be retroactive to a previous payment period if the payment period is in the same award year. Thus, if an agreement is signed in the middle of the spring semester, the student can be paid for the entire award year, including the preceding fall semester.

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

Students usually participate in Study Abroad or domestic exchange programs in one of two ways—

1. Through an out-of-State tuition waiver system that allows a student to pay tuition and fees directly to the school the student is temporarily attending, or

2. By paying tuition and fees at the home school, while taking courses at another school.

Study abroad students are SFA-eligible

Some students have had problems receiving SFA program funds for Study Abroad or domestic exchange programs, because neither the student's home school nor the school the student is temporarily attending considers the student enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

The law states that a student participating in a Study Abroad program is eligible for SFA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as the student is an eligible regular student enrolled in an eligible program at the home school. The Study Abroad program must be part of a written contractual agreement between the two schools, and the program must be accepted for credit by the home institution. (The program does not have be required for the eligible program in which the student is enrolled at the home institution for it to be accepted for credit.) The law also includes this item in the Program Participation Agreement.

SECTION SEVEN: PROGRAM REVIEWS AND AUDITS

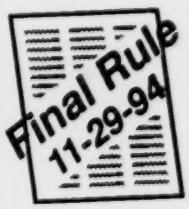
The Department uses several methods to ensure that schools, lenders, and guaranty agencies are using correct procedures to award, disburse, and account for the use of Federal funds. In this section we will discuss audits and program reviews that are conducted at schools that participate in the SFA programs, as well as other quality control measures.

If the program review or audit identifies SFA funds that have been improperly awarded, the school must return those funds to the program accounts. However, program reviews and audits are not conducted so much to recover funds as to identify procedural problems at the school and recommend solutions. Several other ways for a school to obtain technical assistance are discussed at the end of the section.

If a program review or audit finds evidence of fraud or other serious program abuse at a school, the school may be subject to corrective action, such as fines, emergency action, or suspension, limitation, or termination (see Section Ten of this Chapter).

AUDITS

The audit requirements under the Higher Education Amendments of 1992 were implemented by final regulations published on April 29, 1994 and November 29, 1994. All participating SFA schools, including foreign schools, and third-party servicers must have an annual compliance audit performed independently, covering every aspect of the school's or servicer's administration of the SFA programs. (Annual audits are also required for secondary markets, for all transactions involving the servicing or collecting of loans.) See Section Two of this Chapter for more on third-party servicers, including a definition of the term.



Schools and servicers can meet the audit requirements by having an audit performed under the guidelines of the Department's *Audit Guide: Audits of Student Financial Assistance Programs.* Audits performed under the guidelines of the Single Audit Act* (known as A-128 audits and A-133 audits) will also meet this requirement.

Audit options depend on control

The type of audit a school or servicer may have depends on its method of control: public, for profit, or nonprofit, as illustrated by the chart below. All for-profit schools (and servicers) must comply with the audit requirement by having an SFA Compliance Audit under the criteria of the Department's Audit Guide. All public schools may comply with OMB Circular 128, which allows an SFA Compliance Audit under the criteria of the Department's Audit Guide or an A-133 audit under limited circumstances. All nonprofit institutions must follow OMB circular A-133, which allows for an *Audit Guide* audit under some circumstances.

Audit Options (Based on Control)

	PUBLIC	FOR PROFIT	NONPROFIT
Audit Guide Audits	Allowed when only one CDFA#	Required	Allowed when SFA is only federal program
A-128 Audits	Required for most	X	X
A-133 Audits	Not allowed for state/federal entity	X	Required for most

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the SFA programs. However, a foreign school's first audit must cover only the last two complete award years of SFA participation, unless the Department specifies otherwise. Each subsequent audit must cover the period since the preceding Department accepted audit.

* Under the Single Audit Act (chapter 75 of title 31, U.S.C.), certain types of schools that receive funds from more than one Federal program may have a combined audit of all the Federal programs at that school. The Single Audit Act has been implemented by Federal agencies using two circulars prepared by the Office of Management and Budget (OMB). OMB Circular A-128 applies to public schools that are State entities; OMB Circular A-133 applies to nonprofit postsecondary schools. For this reason, audits under this act may be referred to as A-128 or A-133 audits. (OMB Circular A-133 supersedes OMB Circular A-110, Attachment F.)

The *servicer's* first audit must cover the servicer's activities for the award year, ending on or after July 1, 1994, in which the servicer began to administer any aspect of a school's participation in the SFA programs. Each subsequent audit must cover the entire period of time since the preceding audit. If a servicer contracts with only one SFA school, and that school's own audit sufficiently covers all the functions performed by the servicer, a separate audit is not required. Similarly, if a servicer contracts with several SFA schools, a single audit can be performed that covers all its administrative services for each school. A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers.

Exceptions for servicers

The audit must be performed by an independent auditor in accordance with general audit standards and the standards of the U.S. General Accounting Office (GAO). In conducting an audit, a school or servicer and its auditor should use the Department of Education's latest *Audit Guide for Student Financial Assistance Programs*, the accounting and recordkeeping manual for the SFA programs (known as *The Blue Book)*, and the *ED Payment System Users Manual.*

The Blue Book is developed under contract with the Office of Student Financial Assistance. The full title is *The Blue Book: Accounting, Recordkeeping, and Reporting by Postsecondary Educational Schools for Federally-Funded Student Financial Aid Programs.* Schools may request copies of the Department's *Audit Guide* and *The Blue Book* by writing to: Federal Student Information Center, P.O. Box 84, Washington, D.C. 20044.

The auditor or auditing firm the school or servicer uses for its required nonFederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of SFA program funds. The criteria for independence are given in Chapter IV Section B of the GAO *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.* The most important sections of the *Standards* are published as Appendices B and C of the December 31, 1980 Student Assistance General Provisions regulations. An audit conducted by a State auditor will also satisfy the nonFederal audit requirement.

Independent audits

The Office of Inspector General (OIG) also conducts audits, usually in cases where there may be concern over the school's administration of the SFA programs. A Federal audit such as this does not satisfy the requirement that a school have an annual nonFederal audit.

Audits by Inspector General

Regardless of who is performing the audit, the audit itself will examine whether the school or servicer is properly conducting its financial operations and is complying with the laws and regulations that are applicable to the SFA programs.

Scope of the audit

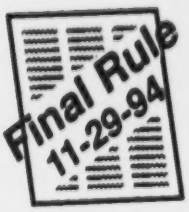
The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in Section Eight of this Chapter.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

Exit interview

At the end of the on-site review, the auditor will hold an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. Because of the complexity of financial aid programs, it is not unusual for misunderstandings to arise concerning program requirements and school or servicer procedures. The exit interview is a good time to resolve any disagreements before the final report is prepared.

Audit report

The final report will be prepared by the auditor and submitted to the school or servicer. (For both *Audit Guide* and A-128 audits, the auditor must report all audit findings. For A-133 audits, the auditor is required to report only audit findings of noncompliance.) The school or servicer must then submit the audit report to the Department's Regional Inspector General for Audit (RIGA). In addition, the school or servicer must address the auditor's findings in a Correction Action Plan (CAP), submitted to the RIGA separately or included with the audit report.



Audit submission deadlines

The Department is collecting compliance audits annually, instead of biennially, beginning with the 1994-95 award year, as required by law. Beginning with the 1995-96 award year, a school's or servicer's annual compliance audit must be based upon the *award year* and submitted to the Department within *six months* after the end of the school's or servicer's

Audit Deadline Examples

FISCAL YEAR ENDING	AWARD YEAR ENDING	DUE DATE
June 30, 1995	June 30, 1995	January 1, 1996
September 30, 1995	June 30, 1995	April 1, 1996
December 31, 1995	June 30, 1995	July 1, 1996
March 31, 1996	June 30, 1995	October 1, 1996

fiscal year. Therefore, the audit would be due six months after the fiscal year that ends on or after the most recently completed award year for which the audit is performed.

A-133 and A-128 audits

This requirement can also be met with an audit conducted in accordance with OMB circular A-133 or A-128, if applicable. A-133 and A-128 audits would be due in accordance with the submission deadlines applicable to these audits, instead of six months after the end of the fiscal year.

The RIGA will review the audit report only for format, completeness, and to ensure that it complies with the government's auditing standards. After its review, the RIGA forwards the audit report and the CAP to the Audit Resolution Branch (ARB) in Student Financial Assistance Programs, Office of Postsecondary Education; at this point, the RIGA also notifies the school or servicer that it has 35 days to add any supplemental information to its CAP.

Based on the audit findings and the school's or servicer's written explanation, the ARB will determine if any funds were spent improperly. The school or servicer must repay any improperly spent funds within 45 days, unless the school or servicer has properly appealed the decision.

Access to records

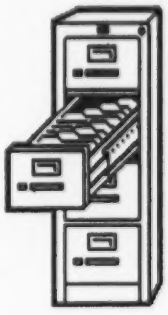
Once the audit is complete, the school or servicer must give the Department and the Office of Inspector General (OIG) access to any records or other documents necessary to review the audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will also give the Department and OIG access to the records and documents related to the audit, inclusive of work papers.

Access to audit results

If requested, or as warranted by the Department, the school or servicer must provide the results of the audit to any relevant guaranty agency, FFEL lender, State agency, accrediting agency, State postsecondary review entity (SPRE), or to the Secretary for Veterans Affairs.

Full cooperation is required for all examination actions

Throughout the audit process, and for other examinations such as program reviews and State reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the U.S., the appropriate guaranty agency and accrediting agency, and the appropriate State Postsecondary Review Entity (SPRE). Cooperation includes timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.



Access—The right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or management's tape recorders.

PROGRAM REVIEWS

In addition to reviewing audits, the Department conducts its own program reviews to identify possible problems in schools' SFA administration. Under the HEA of 1965, as amended, the Department systematically performs regular program reviews of SFA schools.

In selecting schools for review, the Department gives priority to schools that appear to be experiencing fiscal or administrative problems. Some of the criteria include: an FFEL cohort default rate over 25%; a rate which places the school within the top 25% of all FFEL default rates; and a default dollar volume that is within the top 25% of all FFEL schools. Other review priorities include significant fluctuation in Federal Stafford and Federal Pell volume, problems reported by an accrediting or State agency, and a high dropout rate.

MOST FREQUENT AUDIT AND PROGRAM REVIEW LIABILITIES

Incomplete/undocumented verification procedures.

Missing/incomplete financial aid transcripts.

Loan exit/entrance interviews not documented.

Satisfactory progress standards not adequately established or monitored.

Late refunds, or refunds not made at all.

Excess cash on hand from SFA programs.

Inconsistent information in student file.

Accounting records inadequately maintained.

Improper student budgets.

Ineligible programs or locations.

FISAP Income Grid not documented.

Failure to exercise due diligence in collecting Federal Perkins loans.

Records not maintained as required.

Audit report not submitted.

A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the SFA programs. In particular, the program review team will usually examine student records and admissions records, fund requests and transfers, records pertaining to due diligence and the collection of Federal Perkins Loans, time sheets and pay rates for the FWS Program, and documents related to the reporting process for the Federal Pell Grant and campus-based programs. The review team will also review the adequacy of the school's drug prevention program.

MOST FREQUENT NON-MONETARY FINDINGS

Unmet consumer information requirements.

Excessive drop-out/withdrawal rates.

Inadequate notification of borrowers regarding refunds made to lenders.

Excessive Perkins loan default rates.

Improperly maintained academic records.

The program review team prepares a written report that will be sent to the school within 30 to 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position, or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and all issues have been resolved, the Department official will send a copy of the final program review determination to the school.

Written report

UNANNOUNCED PROGRAM REVIEWS

It may occasionally be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school. The decision to conduct an unannounced program review rests with the regional Institutional Review Branch (IRB) Chief, but IRB headquarters will be notified in advance.

The criteria for selecting a school for an unannounced program review include, but are not limited to—

Criteria for unannounced reviews

- ✦ negative publicity or complaints from local law enforcement agencies,
- ✦ complaints or incriminating information from students, parents, or current/former school employees, e.g. to the OIG,
- ✦ negative reports from State agencies, accrediting agencies, and
- ✦ other reasonable suspicion of fraud or abuse at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information regarding the review findings. **The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review. School officials will be informed if an emergency action is to be taken.**

Emergency action

[redacted] ***Emergency Action***— upon the recommendation of the Institutional Monitoring Division, the Department may withhold SFA program funds from the school or its students, and/or withdraw the school's authority to obligate or disburse SFA funds.

STATE POSTSECONDARY REVIEWS

Schools may also be subject to reviews by appointed State entities, under the new State Postsecondary Review Program (as authorized by the Higher Education Amendments of 1992 and implemented in final regulations published April 29, 1994). This cooperative review program between State entities and the Federal government is discussed in detail in Section Ten of this Chapter.

GUARANTY AGENCY REVIEWS

The FFEL program regulations also require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews at the 10 schools with the highest loan volume through that agency, as well at any school whose loan volume is 2% or more of the guaranty agency's total loan volume. A guaranty agency is also required to conduct biennial program reviews of schools in its State that have a default rate of over 40%, and any school with a default rate over 20% if the Department notifies the agency that the school does not have a default reduction plan. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as—

Focus of guaranty agency review

- ✦ certification of the loan application,
- ✦ maintenance of records supporting the student's loan eligibility,
- ✦ processing procedures and payment of loan monies, and
- ✦ prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

APPEALING AUDIT AND PROGRAM REVIEW DETERMINATIONS

Only final determinations may be appealed

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a "FINAL LETTER OF DETERMINATION" and explains the appeals procedures.

For a program review, the final determination letter is marked "FINAL PROGRAM REVIEW DETERMINATION LETTER."

Review by impartial hearing official

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Departmental official identified in the determination within 45 days after it receives the determination. If the school or servicer makes such a request, the determination will be reviewed by an impartial hearing official appointed by the Department. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a copy of its submission at the same time. If the final decision is appealed by either party, the Secretary will review it.

Repayment of liability

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will determine the liability owed, if any. The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the Department grants an extension. At its option, the Department may elect to use an administrative offset to collect the funds owed.

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance Program (QAP), schools design and establish quality control/assurance programs to minimize error in the administration and delivery of SFA programs. The emphasis of this program is on prevention or up-front correction, rather than after-the-fact inspection. It provides schools with the tools and incentives to accurately and effectively deliver student aid and to improve their service to students. It is based on the principles of Total Quality Management, with an annual cycle of assessment and problem identification with measurement, solution design and implementation, and monitoring of results for continuous improvement.

QAP schools are exempt from certain verification requirements that dupiicate quality control measures, but appropriate reporting requirements and Quality Assurance Site Reviews are substituted to ensure accountability and program integrity. Schools that are interested in QAP participation should contact the Performance and Accountability Improvement Staff at the following address or phone number:

Consultants and peer review

A school can take other steps to improve its operating procedures, such as contracting with an independent consultant to review its financial aid office to ensure compliance with Federal and State requirements, and to recommend improvements. Or, it might undertake a "peer review" by arranging for a financial aid administrator at another school to visit and review office procedures.

SECTION EIGHT: RECORD-KEEPING AND DISCLOSURE

The General Provisions regulations require schools to maintain student records, and program and fiscal records. Schools must make these records available to auditors and representatives of the Department, in the course of the reviews described in Section Seven of this Chapter.

Complete and consistent records

The importance of maintaining complete and consistent records cannot be overemphasized. Program and fiscal records must show a clear "audit trail" for SFA program expenditures. Similarly, student records for each SFA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations. Any exceptions to the school's normal procedures should be appropriately noted in the file, in terms that would be clear to anyone reviewing the file, whether a program reviewer or another member of the financial aid office staff.

Documenting special circumstances

The law explicitly requires the financial aid administrator to document the student's file when using professional judgment to override a student's dependency status, to adjust a student's Expected Family Contribution (EFC), or to make other adjustments that will affect a student's SFA eligibility. In general, the financial aid administrator should note in the student's records any unusual situation that explains any special consideration given to the student when awarding financial aid.

This section describes the recordkeeping requirements contained in the General Provisions. We have included a discussion of the Family Educational Rights and Privacy Act (FERPA), which restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.

PROGRAM AND FISCAL RECORDS

A school must keep consistent and accurate records of its use of SFA funds. These program and fiscal records must be available for review, including, upon written request, any records of transactions between a school and the financial institution where the school deposits any SFA funds. As discussed in Section Three, Cash Management, when a school establishes bank accounts for Federal Pell Grant, PAS, FSEOG, Federal Perkins, Direct Loans, or FWS funds, it must either inform the bank that these are Federal accounts by writing the bank (making sure to keep a copy of the notice) or by including the word "Federal" in the name of the account. The account designated as simply "SEOG account" or "ABC University Pell Grant account" would not satisfy the requirement because neither identification indicates that the school will be depositing Federal funds.

SOME EXAMPLES OF ACCEPTABLE ACCOUNT DESIGNATIONS:

Federal Pell Grant Account

Federal Perkins Loan Cash Account

ABC University - Federal EDPMS Account

ABC - Federal Cash Account

STUDENT RECORDS

General student record requirements

In addition to program and fiscal records, a school must keep records that substantiate the eligibility of its students for SFA funds. For each student who receives SFA funds, a school must keep records of—

- the student's admission to and enrollment status at the school,
- the student's program of study and the courses in which he or she is enrolled,
- whether the student is making satisfactory academic progress,
- all financial aid the student receives (and a financial aid transcript for a transfer student),
- all refunds due or paid and the source to which they are paid (e.g., to the student, the SFA programs, or the FFEL lenders),

- verification of information on the student aid application, and
- any required certifications (educational purpose, registration status, etc.), signed by the student, and any documents used to document the student's registration status.

The school must also keep records regarding its admission requirements and the educational qualifications of each student in each eligible program — whether or not such a student receives SFA funds.

If only certain programs at the school are eligible for SFA funding, the school must maintain records regarding the admission requirements for those programs and the educational qualifications of the regular students enrolled in them.

Admission and enrollment status information

Admission and enrollment status information may include why a student was admitted, how the student's standing compares to that of the average student entering a particular eligible program, and what remedial courses are necessary for the student to complete the program.

High school diploma, GED program, etc.

To ensure that SFA recipients are eligible postsecondary students, a school participating in the SFA programs must document that the student is no longer enrolled in elementary or secondary school. If the student certifies that he or she has a high school diploma or recognized equivalent, the school must keep a copy of the student's certification. A school may also need to keep statistics showing the success of the GED program it makes available to its students, if the GED program is not conducted by State or local secondary school authorities.

Statistics on GED program and campus security; drug prevention materials

The law requires that a school keep statistics relating to crimes committed on campus (see Section Nine of this Chapter). The school must also keep copies of its drug prevention materials, as well as records indicating that these materials were distributed to each student and employee, and the results of the school's evaluation of its drug prevention program. The school must keep its drug prevention program records for at least three years after the fiscal year in which they were created, and must keep the records longer if they are needed to resolve litigation or an audit, program review, or other action.

Specific program record requirements

Each SFA program also has specific record retention requirements. For instance, the Federal Pell Grant regulations require a school to maintain fiscal records for all program transactions, the name and social security number of each student recipient, and records establishing each recipient's eligibility, cost of attendance, and the amount and date of each payment to the student (as well as any repayments to the program accounts on behalf of that student). See Chapters Five, Six, Seven, Eight, and Ten of this *Handbook* for the program-specific requirements.

Availability of records

Student records must be organized and readily available for review by the Department of Education. (Refer to *The Blue Book* for further information.) The records must be kept at the degree- or certificate-granting school, although not necessarily in one school office.

RECORD RETENTION REQUIREMENT	
Student records must be kept for five years from the following dates:	
Pell	The last day of the award year.
SEOG **CWS**	The date that the school files its Fiscal Operations Report for that award year.
Perkins **(NDSL)**	The date that the school files its Fiscal Operations Report for that award year (award records). The date of the loan's assignment, cancellation, or final repayment (loan records).
Stafford **SLS** **PLUS**	Last day of the borrower's attendance (records) Date report is completed (reports).

Microfilm and microfiche records

Records may be maintained on microfilm or microfiche, except for the promissory notes and repayment schedules under the Federal Perkins, NDSL, and FFEL programs. (Note that microfilmed copies of promissory notes and repayment schedules are **not** acceptable.) Notwithstanding other record retention requirements, a school **must** keep records involved in any claim or expenditure questioned by Federal audit until resolution of any audit questions.

DISCLOSING STUDENT INFORMATION

To protect the privacy of students and families, Federal law sets certain conditions on the disclosure of personal information from records kept by schools that participate in the SFA programs. The relevant law is the Family Educational Rights and Privacy Act of 1974 (FERPA); do not confuse FERPA with the Privacy Act of 1974, which governs the records kept by government agencies, including the application records in the Federal processing system.

Final regulations published on January 17, 1995 have clarified FERPA restrictions on disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes). For more information, see Section Nine of this Chapter.

Department regulations published in 1988 set limits on the disclosure of personally identifiable information from school records, and define the responsibilities of the school, and the rights of the student in reviewing the records and requesting a change to the records. A school must give the student the opportunity to inspect and review his or her educational records, but does not have to provide copies of the records unless the requirement that the student come to the school to inspect and review the records would effectively deny access to the student. While the school may not charge a fee for retrieving the records, it may charge a reasonable fee for providing *copies* of the records, provided that the fee would not prevent access to the records.

The box to the right notes several important elements of the school's responsibilities and the rights of the student or parent. The regulations apply to *all* education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

A school is required to —

- ***Develop a written policy*** listing the types and locations of education records maintained by the school, and stating the procedures for parents and students to review the records.
- ***Notify parents and students*** of their rights with respect to educational records.
- ***Document the student's file*** each time personally identifiable information is disclosed to persons other than the student.

A student has the right to —

- ***Inspect and review*** education records pertaining to the student.
- ***Request an amendment*** to the student's records.
- ***Request a hearing*** (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

Disclosure without student's prior written consent

The FERPA regulations also establish rules governing the disclosure of student information to parties other than the student. The regulation lists twelve conditions under which "personally identifiable information" from a student's education record may be disclosed without the student's prior written consent. Several of these conditions are of particular interest to the financial aid office—

(1) *Disclosure may be made to authorized representatives of the U.S. Department of Education, the Office of Inspector General, or State and local education authorities.* These officials may have access to education records as a part of an audit or program review, or to ensure compliance with SFA program requirements. ("Representatives of the Department" includes research firms that are under contract with the Department to conduct studies of financial aid procedures, using student information provided by the schools selected for the study. The term also includes the SFAP public inquiry contractor.)

(2) *Disclosure may be made if it is in connection with financial aid that the student has received or applied for.* For instance, the school may receive a request from the Immigration and Naturalization Service (INS) or the Federal Bureau of Investigation (FBI) for access to a student's records. Such a request may only be granted if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

(3) *Disclosure may be made to the student's parent, if the student is a dependent of the parent, as defined by the Internal Revenue Service.* If the student receives more than half of his or her support from the parent, under the IRS definition, the student is a dependent of the parent. (Note that the IRS definition is quite different from the rules governing dependency status for the SFA programs.)

(4) *Disclosure may be made to organizations that are conducting studies concerning the administration of student aid programs on behalf of educational agencies or institutions.*

Documenting requests for information

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

Sample disclosure statement for program reviews

If student records are requested by Department reviewers in the course of a program review, for instance, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the SFA programs conducted by a Department regional office: "These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4)."

Redisclosure to other authorized parties

When student information has been disclosed to one of the parties listed above, that party may redisclose that information to additional parties who are authorized to receive the information without prior written consent, provided that such redisclosure is included in the statement in the student's file. For instance, if a program review finds evidence that a student may have fraudulently obtained aid, this information may be redisclosed to the Department's Office of Inspector General (OIG) by the regional office. (Thus the OIG would not have to make a separate request to the school for the same information.) When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an SFA program review, the following statement might be added: "The Institutional Review Branch may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b)." You should check with the program review staff to find out if any redisclosure is anticipated.

As mentioned earlier, the financial aid office is usually not responsible for developing the school's FERPA policy. However, if you are involved in developing your school's policy and would like a copy of the Department's model policy for postsecondary schools, you may write to the following address:

Family Policy and Compliance Office
U.S. Department of Education
600 Independence Avenue, S.W.
Washington, D.C. 20202-4605

SECTION NINE: STUDENT CONSUMER INFORMATION

The basic requirements for the consumer information that a school must provide students are found in the General Provisions regulations and stress the importance of providing students with reliable information regarding a school's academic programs, facilities, and financial aid programs. The Higher Education Amendments of 1992 added to the requirements in this area, necessitating the development of new regulations.

Final regulations on campus security were published on April 29, 1994, and those requirements are discussed here. However, final regulations to implement the Student Right-to-Know Act have been delayed and **all Student Right-to-Know (SRK) requirements are suspended until final regulations are published and become effective. There are no SRK requirements for 1995-96 at this time.**

In recent years, the increased number of defaulted Federal student loans has led to renewed interest in providing students with information necessary to choose an appropriate academic program and to fully understand the responsibility of loan repayment. This section briefly addresses required loan counseling, but the loan counseling requirements are covered in detail in Chapter Ten of this *Handbook*.

BASIC CONSUMER INFORMATION REQUIREMENTS

Subpart D of the General Provisions lists basic information about the school and about financial aid that must be available to current and prospective students, usually through printed materials. If necessary, these materials must be prepared by the school. However, much of the required data will already be available in brochures and handouts routinely disseminated by the school, or in Federal publications such as *The Student Guide.* The following minimum information must be provided—

Financial aid information

- what need-based and non-need-based Federal financial aid is available to students,
- what need-based and non-need based State and local aid programs, school aid programs, and other private aid programs are available,
- how students apply for aid and how eligibility is determined,
- how the school distributes aid among students,
- the rights and responsibilities of students receiving aid,
- how and when financial aid will be disbursed,
- the terms and conditions of any employment that is part of the financial aid package,
- the terms of, schedules for, and the necessity of loan repayment and required loan exit counseling,
- the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for Federal financial aid,
- information on preventing drug and alcohol abuse,
- information regarding the availability of SFA funds for study abroad programs, and
- that a student may be eligible for SFA funds for attending a study abroad program that is approved for credit by the home school.

General information about the school

The school must provide the following minimum information about itself—

- the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval,
- special facilities and services available to disabled students,
- the costs of attending the school (tuition and fees, books and supplies, room and board and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest,
- the school's fair and equitable refund policy and on the prescribed order of SFA refund distribution,
- the degree programs, training, and other education offered,
- the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent,
- the instructional, laboratory, and other physical plant facilities associated with the academic programs,
- a list of the faculty and other instructional personnel,
- the satisfactory progress standards that must be maintained, and
- who to contact for information on student financial assistance and on general institutional issues.

Availability of financial aid personnel

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist current or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. (Contact the Institutional Participation Division.)

JOB PLACEMENT RATES

Information to substantiate job placement claims

Schools that recruit students by using marketing claims regarding job placement must substantiate such claims. At or before the time of application, the school must provide to prospective students, the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate its claims. As discussed in Section Two of this Chapter, if the school advertises job placement rates to attract enrollment, it must inform prospective students of the State licensing requirements for the jobs for which the students seek training.

CAMPUS SECURITY

The Higher Education Amendments of 1992 also expanded the security-related requirements of the Student Right-to-Know and Campus Security Act, which required a school to compile an annual campus security report. Final regulations on campus security were published on April 29, 1994. Those requirements are discussed here.

Campus security report

By September 1 of each year, the annual campus security report must be distributed to all students and employees by appropriate publications, either directly or by mail (through direct mail, campus mail, or computer networks). The report should be reasonably available to all prospective student and employees, and those persons must be informed of the report's availability and be given a summary of its contents.

The campus security report will provide information regarding campus security policies and campus crime statistics. At a minimum, the report must include following—

Crime statistics

- the procedures for reporting crimes and other emergencies occurring on campus, and the policies for the school's response to such reports,
- the policies concerning the security of and access to all campus facilities, including residences,
- the policies concerning campus law enforcement, including the authority of campus security personnel and their working relationship to local police and other law enforcement agencies (policies must encourage prompt reporting of campus crimes),
- the information programs available to students and employees on campus security, personal safety, and crime prevention,

- statistics on the on-campus occurrence of murder, forcible and nonforcible sex offenses (e.g., rape), robbery, aggravated assault, burglary, and motor vehicle theft, as reported to the local police or campus officials (also, statistics concerning certain crimes that show evidence of prejudice based on race, religion, sexual orientation or, ethnicity),

- the policies concerning the monitoring and recording (through local police agencies) of student criminal activity at off-campus locations of student organizations recognized by the school, including off-campus housing facilities,

- the drug and alcohol-abuse programs available to students and employees, as required under the Higher Education Act,

- the policies concerning the possession, use, and sale of alcoholic beverages—including the enforcement of State underage drinking laws, and the policies concerning the possession, use, and sale of illegal drugs—including the enforcement of State and Federal drug laws,

- statistics concerning the number of arrests for violations of liquor laws, drug abuse, and weapons possession, and

- the sexual assault prevention programs available and the procedures that must be followed when a sex offense occurs (including who to contact, the importance of preserving evidence, options for the notification of local law enforcement officials, available counseling and other services for victims, procedures for disciplinary actions and possible sanctions, and a change in living or academic arrangements, if requested by the victim of a sex offense and if reasonably available).

Sexual assault prevention program required

The requirements regarding the campus security report must be met individually for each separate campus. (Any branch, school, or administrative division that is not reasonably geographically contiguous with the main campus is considered a separate campus.)

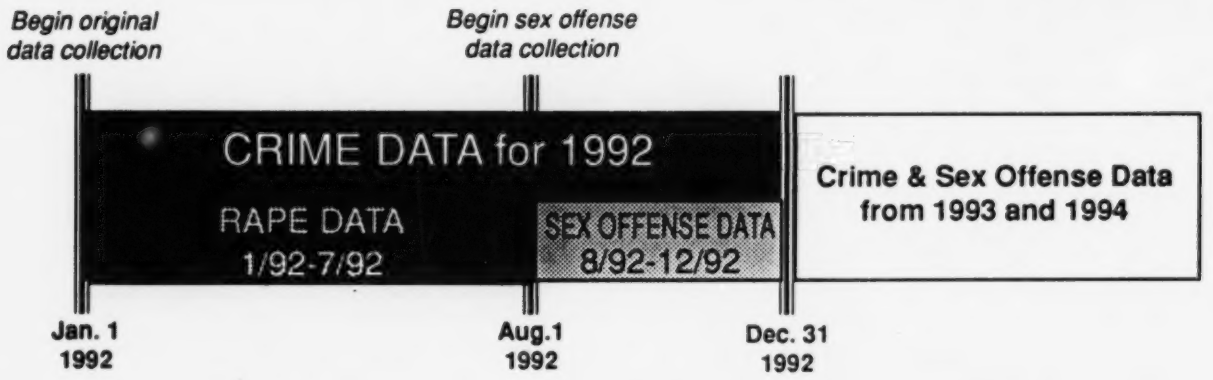
On-Campus—includes (1) any building or property owned or controlled by the school within the same contiguous area and used by the school in direct support of or related to its educational purposes, or (2) any building or property owned or controlled by student organizations recognized by the school.

The annual security report due September 1, 1995, and each subsequent annual report thereafter, must contain the required statistics for three calendar years preceding the year in which the report is disclosed. The law requiring these statistical reports was effective in 1992; therefore, it is reasonable to expect that schools had sufficient notice to make available

and collect all relevant data from the 1992, 1993, and 1994 calendar years, and that all campus security reports due September 1, 1995, or later will be complete in this respect.

Under the Higher Education Amendments of 1992, **the term "rape" was replaced by "sex offenses, forcible and nonforcible."** Effective August 1, 1992, schools were to begin collecting statistics on the occurrence of offenses under this broader category, according to the definitions in the FBI's Uniform Crime Reporting System. Therefore, all reports should include statistics concerning rape for periods of time prior to August 1, 1992, and statistics concerning sex offenses, forcible and nonforcible, for periods of time on and after August 1, 1992. However, if a school has sex offense data available for any portion of the period from January 1, 1992 through August 1, 1992, the school must report this data for the 1992 calendar year.

September 1995 Campus Security Report will include...


Begin original data collection
Begin sex offense data collection
CRIME DATA for 1992
RAPE DATA 1/92-7/92
SEX OFFENSE DATA 8/92-12/92
Crime & Sex Offense Data from 1993 and 1994
Jan. 1 1992
Aug.1 1992
Dec. 31 1992

All schools must compile the required crime statistics in accordance with the definitions used in the Federal Bureau of Investigation's Uniform Crime Reporting Program, which is provided in Appendix E of the final regulation published April 29, 1994.

In addition to the required annual campus security report, schools are required to inform the campus community of all on-campus crimes that are reported to campus security officials and are considered to represent a threat to students and/or employees. This information is to be provided in a timely and appropriate manner so as to prevent similar crimes from occurring and to protect the personal safety of students and employees. Schools should work closely with local law enforcement officials in determining the necessary and appropriate distribution of such information to the campus community.

Schools should note that the regulations implementing FERPA (which is discussed in greater detail in Section Eight of this Chapter) have been changed to specify that records of a school's disciplinary actions or proceedings are protected under the provisions of FERPA. That is, final regulations published on January 17, 1995 state that records of a school's disciplinary actions or proceedings against a student are **not** available to the public without the consent of the student or the student's parent (if applicable).

Under the law, a school is permitted to disclose only the **results** of disciplinary proceedings and only to the alleged **victim** of a **crime of violence** (as defined in the United States Code), not to the public, without the consent of the student or parent (if applicable).

However, the law does not provide the same protections to records of a school's law enforcement unit. That is, this law does not prevent a school from releasing records of its law enforcement unit to the public without the consent of the student or the student's parent (if applicable).

Disciplinary action or proceeding

The investigation, adjudication, or imposition of sanctions by an educational agency or institution with respect to an infraction or violation of the internal rules of conduct applicable to students of the agency or institution.

Law enforcement unit

Any individual, office, department, division, or other component of an educational agency or institution, such as a unit of commissioned police officers or noncommissioned security guards, that is officially authorized or designated by that agency or institution to—

- enforce any local, State, or Federal law, or refer to appropriate authorities a matter for enforcement of any local, State, or Federal law against any individual or organization other than the agency or institution itself, or
- maintain the physical security and safety of the agency or institution.

LOAN COUNSELING

General loan information, repayment options, and debt management planning

Before a Federal Perkins, FFEL, or Federal Direct Loan borrower takes out a loan, the school must counsel that borrower, individually or in a group with other borrowers. Specifically, the school must give the borrower general information on the average anticipated monthly repayments on the loan, available repayment options, and advice on debt management planning, to facilitate repayment and deferment/cancellation provisions, if applicable, and other terms and conditions.

This loan counseling must also be provided before the borrower completes his or her study, or otherwise leaves the school. (If the student withdraws without notice, the counseling information must be sent to the borrower's last known address.) Also at the time of exit, the student must provide the school with a correct name and address of his or her future employer, address of next of kin, and any correction to the school's record of the borrower's name, address, Social Security Number, and driver's license number, as well as the names and addresses of references. Within 60 days, the school must provide this information to the guaranty agency.

Alternatives to borrowing —State aid

Any loan counseling should also include information about alternatives to borrowing. Schools must inform all eligible FFEL borrowers of the availability of State grants in the State in which the school is located, and must refer out-of-State borrowers to the source of information for aid from their home State. (A list of State agencies is provided in Chapter Nine of this *Handbook*.) While this information can be made available to students through printed materials, it would be useful to mention these alternatives when counseling students applying for loans.

Use of audio-visual and written materials

There is no prescribed format for adequate financial aid counseling. For example, the use of audiovisual materials can be very effective. In fact, the FFEL regulations now authorize schools to use videotape presentations to provide the initial counseling given to a borrower. However, the school must make sure that someone who is well-informed about the SFA programs is reasonably available shortly after the counseling presentation to answer borrowers' questions. (Correspondence schools must provide borrowers with written counseling materials by mail prior to disbursing the loan proceeds.) For a complete discussion of loan counseling requirements, please see Chapters Six and Ten of this *Handbook*.

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

Schools that participate in the campus-based programs are required to provide information under the Drug-Free Workplace Act of 1988 (P.L. 101-690), including a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. More recently, the Drug-Free Schools and Communities Act (P.L. 101-226) requires schools that participate in *any* SFA program to provide information to its students, faculty, and employees to prevent drug and alcohol abuse. Schools must provide the following in its materials—

Information to be included in drug prevention materials

- Standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as a part of the school's activities,
- A description of the applicable legal sanctions under local, State, and Federal law for unlawful possession, use, or distribution of illicit drugs and alcohol,
- A description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees,
- A description of the health risks associated with the use of illicit drugs and alcohol, and
- A clear statement that the school will impose sanctions on students and employees (consistent with local, State, and Federal law) and a description of these sanctions, up to and including expulsion or termination of employment, and referral for prosecution of the standards of conduct.

The appendices and Comments and Responses sections of the August 16, 1990 regulations provide additional guidance and information for schools to use in developing these materials.

Distribution of materials to all students and employees

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks. The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. For more information on anti-drug abuse requirements, see Section Two.

MISREPRESENTATION

Definition of misrepresentation

The General Provisions permit the Department to fine a school, or limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Misrepresentation—Any false, erroneous or misleading statement made to a student or prospective student,* to the family of an enrolled or prospective student, or to the ED. This includes disseminating testimonials and endorsements given under duress.

Substantial Misrepresentation—any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Accreditation, facilities, etc.

Misrepresentation of the educational program includes false or misleading statements about the school's accreditation, the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, it must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students *not receiving a scholarship.*) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation of scholarships

Misrepresentation of employability of graduates

Misrepresentation of the employability of the school's graduates includes any false or misleading statements—

- That the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- That the school maintains a placement service for graduates or will otherwise secure or assist graduates in securing a job, unless it provides the student with a clear and accurate description of the extent and nature of the service or assistance, or
- Concerning government job market statistics in relation to the potential placement of its graduates.

The regulatory provisions concerning misrepresentation are given in detail on the next page.

*The regulations define prospective students as individuals who have contacted the school to inquire about enrolling at the school or who have been contacted directly by the school or indirectly through general advertising about enrolling at the school.

Nature of educational program

§668.72 Misrepresentation by an institution of the nature of its educational program includes, but is not limited to, false, erroneous or misleading statements concerning—

- The particular type(s), specific source(s), nature and extent of its accreditation,
- Whether a student may transfer course credits earned at the institution to any other institution,
- Whether successful completion of a course of instruction qualifies a student for acceptance into a labor union or similar organization,
- Whether successful completion of a course of instruction qualifies a student for: acceptance into a labor union or similar organization; or receipt of a local, State, or Federal license or a nongovernment certification required as a precondition for employment or to perform certain functions,
- Whether its courses are recommended by vocational counselors, high schools or employment agencies, or by governmental officials for government employment,
- Its size, location, facilities or equipment;
- The availability, frequency and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- The nature, age and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet,
- The number, availability and qualifications, including the training and experience, of its faculty and other personnel,
- The availability of part-time employment or other forms of financial assistance,
- The nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during or after the completion of a course,
- The nature and extent of any prerequisites established for enrollment in any course, or
- Any matters required to be disclosed to prospective students under Sec. 668.44 and 668.47 of this part. [NOTE: See list in this Section.]

Nature of financial charges

§668.73 Misrepresentation by an institution of the nature of its financial charges includes, but is not limited to, false, erroneous or misleading statements concerning—

- Offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students not receiving a scholarship and are made known to the student in advance, or
- Whether a particular charge is the customary charge at the institution for a course.

Employability of graduates

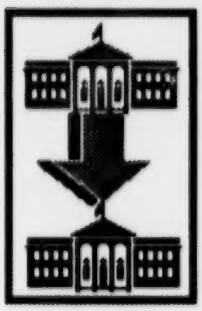
§668.74 Misrepresentation by an institution regarding the employability of its graduates includes, but is not limited to, false, erroneous or misleading statements—

- That the institution is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment,
- That the institution maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance, or
- Concerning government job market statistics in relation to the potential placement of its graduates.

SECTION TEN: APPLYING FOR PARTICIPATION, STATUS CHANGES, AND CORRECTIVE ACTIONS

In this section we will discuss how a school applies to participate in the SFA programs, and the changes that can affect a school's participation, ranging from changes in ownership or location to corrective actions taken by the Department.

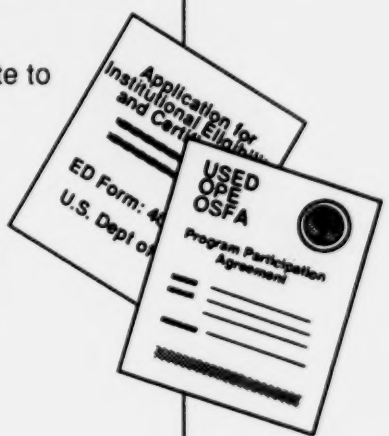
APPLYING FOR PARTICIPATION



Schools wishing to participate in any of the SFA programs —the Federal Pell Grant program, the Federal Direct Loan program, the Federal Family Education Loan (FFEL) programs (Stafford/SLS/PLUS), and the campus-based programs (FSEOG, FWS, and Perkins Loans)—must receive Department approval (currently, the Direct Loan program has a separate application and approval system). In evaluating a school and deciding to grant or deny approval to participate, the Department examines three major factors: eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Sections One and Two of this Chapter.

A school that wishes to apply for SFA participation should write to or call the Institutional Participation Division (IPD):

U.S. Department of Education/OPE/SFAP
Institutional Participation Division
600 Independence Ave., S.W., Room 3522 (ROB-3)
Washington, D.C. 20202
(202)401-6485



The school will receive an Application for Institutional Participation (ED Form 40-34P). The school should complete the Application and return it (with financial statements and other requested documents) to IPD.

Department reviews application; on-site review may be requested

In addition to reviewing the materials to determine whether the school meets the basic institutional eligibility requirements and is capable of effectively administering the SFA programs, IPD will evaluate the school's financial responsibility. Schools participating in any SFA program for the first time are required to send representatives to the Department's pre-certification training; if either of those persons have already attended the training, the school can instead request an on-site review.

PRE-CERTIFICATION TRAINING REQUIREMENT

A school applying to participate in any SFA program for the first time must send two representatives (an administrative representative and a financial aid representative) to a basic training workshop offered by the Department. The Department also requires schools that undergo a change of ownership resulting in a change of control to attend the training. The five-day workshop provides a general overview of SFA program administration, but does not cover fiscal and accounting procedures in detail (the Department offers Fiscal Officer Training separately).

The administrative representative should be the chief executive officer of the school (nonprofit schools may send another official designated by the chief executive officer). The administrative representative must attend at least the first two days of the workshop.

The financial aid representative must be the person designated by the school to be responsible for administering the SFA programs. The financial aid representative must attend for the full five days of the workshop. (It is not required that the two representatives attend the same session.)

If your school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. (If the consultant has already attended pre-certification training, you may request an on-site review instead.) Because the school is ultimately responsible for proper SFA program administration, the Department strongly recommends that a financial aid employee from the school attend the training, even if the consultant will attend.

Schools affected by this training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions. The school will not be approved for SFA participation until the training requirement is met.

The regulations allow schools to meet the pre-certification requirement by sending the specified individuals to training that is **approved** by the Department. However, at this time no pre-certification training programs other than the Department's have been approved.

In addition to the Application, other documentation, and review findings, IPD may request additional information. The Department will review the school's application materials and, if the application is approved, will send the school two copies of the Program Participation Agreement (PPA) (see Section Two of this Chapter.) Once a school has signed and returned the PPA, the Department will send the school an Institutional Approval Notice*

*The Approval Notice must be kept available for review by auditors and Department officials, including SFA program review staff.

and one copy of the PPA, signed and dated by the Secretary (or Department representative). The Institutional Approval Notice will specify the locations and programs that are eligible.

A school may specify on its application that it does not wish to participate in any SFA program. The school is eligible to **apply** for participation in any SFA program listed, but it is not yet eligible to participate in any program. If such a school is determined to be eligible to apply for participation, its students would be eligible for deferment of Perkins and FFEL loan repayment.

Effective date for participation

The date the Secretary signs the PPA is the date a school may begin SFA participation. Financial aid disbursements to students may begin in the payment period that the PPA is signed by the Department. IPD will notify the Program Systems Service, the regional offices, and State guaranty agencies of the school's approval to participate.

Provisional certification

In certain cases, the Department may choose to grant a school temporary, conditional approval to participate in the SFA programs. Referred to as "provisional certification" in the law, this temporary approval may be granted (at the Department's discretion) in the following cases—

- a school is applying for participation for the first time,
- a participating school is reapplying because it has undergone a change of ownership (see the discussion below),
- a school (whose participation has been limited or suspended, or voluntarily enters into provisional certification) is judged by the Department to be in an administrative or financial condition that may jeopardize its ability to perform its responsibilities under the PPA,
- a participating school's (or branch campus') State does not participate in the State Postsecondary Review Program (provided there has been no change of control),
- a school whose participation expired and is reapplying,
- a participating school's accrediting agency has lost its Departmental approval,
- a school has been determined not to be financially responsible but has met other requirements and has accepted provisional certification, or
- a school that is reapplying for certification has a high default rate.

A school seeking first-time participation may be granted provisional certification for up to one complete award year. A school whose accrediting agency lost approval can be provisionally certified for no more than 18 months after the agency's loss of approval. Schools in other categories can be provisionally certified for up to three complete award years.

Revoking provisional certification

While a school is provisionally certified, if the Department determines that the school cannot to meet its responsibilities under the PPA, it may revoke the school's SFA participation. The Department will notify the school of such a determination by certified mail or other expeditious means. The revocation takes effect on the date that the Department mails the notice, which will state the basis and consequences of the determination. The school may request a redetermination by submitting, within 20 days of the receipt of the notice, written evidence (filed by hand-delivery, mail, or facsimile) that the finding is unwarranted . A Department official will review the request and will notify the school of his or her decision by certified mail.

If the Department official determines that the revocation is warranted, the notice will specify the applicable reinstatement procedures. The school may apply for reinstatement no earlier than 18 months after the revocation or a debarment/suspension action, whichever is later.

Renewing certification

All participating SFA schools are required to renew their approval prior to the expiration of their current PPA. In accordance with the Higher Education Amendments of 1992, the Secretary will develop a renewal schedule by which all currently participating schools will renew their participation over the next five years. Schools are responsible for monitoring the expiration date on their PPA and submitting an application for recertification in a timely manner.

If a school submits a complete renewal application at least 90 days prior to the expiration of its current PPA, its eligibility and participation will be extended on a month-to-month basis until the Department either grants or denies the school's renewed participation.

STATE POSTSECONDARY REVIEW PROGRAM

The Higher Education Amendments of 1992 authorized the State Postsecondary Review Program to ensure program integrity through State oversight and review of certain institutions. Final regulations were published on April 29, 1994, and were effective beginning with the 1994-95 award year.

The Department will identify schools (according to criteria given below) and refer those schools to the appropriate State. That State's review entity (SPRE) will then review the schools to determine their compliance with State standards. If a school fails to meet the State standards, the SPRE may prescribe corrective actions or determine that the school should no longer participate in SFA programs.

Funding by Congress

The Department will provide Federal funds to each SPRE for performing these review functions, according to Congressional appropriations. A State is not required to perform these functions if Congress does not appropriate funds for the program.

The SPRE will first review those schools that are scheduled to be recertified by the Department of Education, under a priority review system established by the SPRE.

The Department will initially review all participating schools and will refer to the appropriate State review entities any school that meets any of the following criteria—

Federal criteria for referring schools for State review

- Has an FFEL program cohort default rate of at least 25%,
- Has a cohort default rate of at least 20% (if 2/3 or more of its undergraduates, enrolled at least half-time, receive SFA funds **or** if 2/3 or more of its education and general expenses are derived from SFA funds provided to its students),
- Has 2/3 or more of the its educational and general expenses covered by Federal Pell Grant funds provided to its students,
- Has been subject to a limitation, suspension, or termination action by the Department within the last 5 years,
- Has been required, as a result of a finding from its 2 most recent audits, to repay more than 5% of the SFA funds from any one year,
- Has been cited by the Department for failing to submit timely audits,

- Has shown a year-to-year fluctuation (unaccounted for by program changes) of more than 25% in the amounts received by its students from either the Federal Pell, Federal Stafford, or Federal SLS programs,
- Has failed to meet the statutory financial responsibility standards (see Section Two of this Chapter),
- Has participated in the SFA programs (other than SSIG or Federal Direct Loans) for less than 5 years (excluding public institutions affiliated with a State system of higher education),
- Has undergone an ownership change that resulted in a change of control, and
- Has shown a pattern of student complaints related to SFA program management or to misleading/inappropriate advertising and promotion of its educational program.

School may challenge a referral

Before referring a school for SPRE review, the Department will notify the school and supply all applicable reasons for the referral. The Department will delay the referral if, no later than seven days after the school receives such notification, the school notifies the Department of its intent to challenge the accuracy of the information on which the referral is based. (The notice of intent to challenge may be hand-delivered or mailed.)

How to challenge

To challenge a referral, the school must prove that the referral was based on inaccurate information, and must submit such proof, along with appropriate documentation, to the Department no later than 30 days after the school first received notification of the Department's intention of referral. (If the challenge is based on the claim that a school's cohort default rate is inaccurate, the school must file a timely appeal of that rate, under the applicable provisions found in 34 CFR 668.17.)

If the notice and challenge are received by the Department within the required period, the Department will review the school's challenge and supporting documentation. If the Department's decision is in the favor of the school, the referral will not occur. Otherwise, the school will be referred for SPRE review as originally intended.

State review components

Upon receiving referrals from the Department, the SPRE will review the referred schools. The SPRE reviews referred institutions based on standards developed in consultation with schools in the State, focusing on areas such as: student consumer information requirements; ability-to-benefit and satisfactory progress procedures; recordkeeping requirements; applicable health and safety standards; financial and administrative capability criteria; student complaint procedures; advertising, promotion,

and recruiting practices; refund policies and practices; educational quality and program length; completion, graduation, placement, and withdrawal rates; and the actions of owners, shareholders, or other persons with control, that may adversely affect SFA program participation.

Quality of education assessed

The State must also contract with an appropriate accrediting agency, association, or peer review entity to review or provide information regarding the agency's or system's assessment of the quality and content of the institution's courses or programs of instruction or training in relation to achieving the objectives for which the courses and programs are offered.

Student complaints

In addition to reviewing schools referred by the Department, the SPRE may also request to review schools that meet a review criteria based on more recent data available to the State or, in the judgment of the State, are engaged in fraudulent practices. State requests for the review of additional schools are subject to Departmental approval. States will also, in consultation with schools, establish procedures for receiving and responding to student complaints about schools, and will maintain records of such complaints.

Findings

If a SPRE finds that a referred school's SFA participation should be terminated, the SPRE must provide the school with an opportunity to contest that finding before an impartial official (designated by the State) within a specified period of time. The State must give the school written notice of the appeal result (and the basis for that result), after which the Department will abide by the findings of the SPRE and will terminate a school's participation upon notification from the State.

Consequences of State refusal to participate

The State entity cannot substitute audits performed by guaranty agencies or accrediting agencies for its required review. However, the State entity may contract with such agencies, with the Department's approval, for assistance in performing the required reviews. If any State declines to enter into an agreement with the Department, appropriate review arrangements will be made with other agencies or organizations. Further, a State's refusal to enter into this agreement or failure to meet the requirements of it will negatively affect SFA schools in that State: the Department will not approve the SFA participation of any new school (including new branch campuses) or any school that has changed ownership; and participating schools in the State will be granted only provisional certification. Also, the State will be ineligible to receive SSIG funds.

CHANGE OF OWNERSHIP OR CONTROL

The law states that, in the case of a change in ownership that results in a change of control, a school's SFA participation does not automatically continue. The PPA signed by the previous owner is terminated when the change of ownership that results in a change of control takes place, and the school must reestablish its eligibility to participate.* However, the school retains the previous owners' default rates, withdrawal rates, and other administrative capability factors. (The school is not expected to meet the two-year rule requirement if it is a Proprietary Institution or a Postsecondary Vocational Institution.)

Change in controlling interest

A change in ownership or control occurs when a person or a corporation obtains new authority to control a school's actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this is when the school is sold to a new owner.

Transfer of assets or liabilities; mergers or divisions; change in tax status

Control of a school can change in other ways, though. For instance, a school's control changes when the school transfers its controlling (more than 50%) interest of stock or its assets to the parent corporation. A school's control also changes in situations where two or more schools merge, one school divides into two or more schools, or the school transfers its liabilities to its parent corporation. A change from a taxable to a tax-exempt status (and vice versa) is also considered a change in control. For a more complete list of the types of circumstances that signify a change in ownership or control, see Section 600.31 of the Institutional Eligibility regulations published on April 29, 1994.

Owner's death or retirement

Note that a school does not have to meet the Department's requirements for a change of ownership that results in a change of control if the change of ownership occurs as the result of the owner's death or retirement, ownership transfers to a family member** or a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer.

*As discussed previously in this section, a school undergoing a change in ownership or control may be provisionally certified by the Department for up to three years.

** A family member is defined as a parent, sibling, spouse, or child; a spouse's parent or sibling or a child's spouse.

Steps to be taken by current owners

To continue participation in the SFA programs, a school that is changing control must take steps to reaffirm its eligibility to participate. The current owner(s) should notify IPD of the date the change of control will take place. The school must notify IPD at the same time that it notifies its accrediting agency, but no later than 10 days after the change occurs. (If the current owner(s) fail to notify IPD of the proposed change in ownership, the new owner is responsible for doing so.)

The current owner should also notify the appropriate State agency that licensed or approved the school, and should give the new owner(s) copies of the school's current Institutional Approval Notice, program reviews, audit reports, and audited financial statements. The school must submit financial statements for the new owners, listing their assets, liabilities, and net worth, and either (1) a profit and loss statement and balance sheet for the latest complete fiscal year, or (2) an audited financial statement for the latest complete fiscal year, prepared by a licensed certified public accountant (CPA).

Steps to be taken by new owner

IPD will then notify the school if, effective on the date of the change, it is no longer participating in the SFA programs, until its new owner renews its participation and has a new PPA signed by the Secretary. At this point, the new owner is expected to follow the application procedures described earlier in this section, such as completing the Application and the PPA. A school may not submit an Application until the transfer is complete, but many transfers involving schools eligible for SFA participation are contingent upon the school retaining its eligibility for the SFA programs. Provided such a transfer is final in all other aspects, it is considered complete and the new owner can proceed with the application process.

Contingent transfers

Acceptance of liabilities and refund policy

The school must provide to the Department proof that its accreditation is continued under the new ownership or control, and a copy of its State legal authorization under the new ownership. The new owner is expected to assume the liabilities of the previous owner's SFA program administration. (Or the new and the old owners may agree to be jointly and severally liable.) The new owner would accept liability for any Federal funds given the school that were improperly spent before the effective date of the change of ownership or control. The new owner should also abide by the refund policy that applied to students enrolled before the effective date of the change, and should honor all student enrollment contracts signed before the date of the change.

Impact of cohort default requirements

As mentioned above, the school remains responsible for current and past cohort default rates and for implementing any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's SFA participation. A school undergoing a change of ownership may be denied approval for SFA participation on the basis of current cohort default rates.

Payments to eligible students

Before the change of control occurs, the current owner should make sure all students have received any SFA payments already due them for the current payment period, and that all records are current and comply with Federal regulations. If a school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change of control takes place. **The new owner(s) may not disburse funds awarded under the PPA of the previous owner(s), nor may the previous owner(s) continue to disburse funds after the date of the ownership change.** The school is considered to have lost eligibility and does not regain eligibility until a new PPA is signed.

Audits and close-out procedures

Although a compliance audit is not required, the new owner may choose to have the accounts audited before they are closed out. Any questions concerning SFA accounts or close-out procedures can be answered by the area representative for the Federal Pell Grant Program, or the Federal campus-based or FFEL branches of the Program Systems Service (see Chapter One of this *Handbook* for phone numbers). The new owner should also check with the Department's Regional Office for information on whether the school owes any Department liabilities resulting from program reviews or audits.

New owners should make sure that, before the date of purchase, all students have received their award payments for any payment period that began before the date of purchase, that all student assistance accounts have been closed out, and that all reports have been filed properly. The school should notify all new students that no funds can be disbursed until the school's eligibility is reaffirmed and the new PPA is signed by the Department.

Steps to be taken by IPD

Once IPD determines that the school is eligible, administratively capable, and financially responsible, a new Institutional Approval Notice and signed PPA will be sent. The appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing SFA funds in the payment period in which the new PPA is signed.

OTHER CHANGES IN CONTROL

Accountability regulations

The Institutional Eligibility regulations also require that a school report any changes under which an individual or corporation acquires the ability to affect substantially the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional approval process as well as in the program review and audit requirements.

As stated in Section Two of this Chapter, an individual or corporation has the ability to substantially affect the school's actions when he or she or it—

- personally holds, or holds in partnership with one or more family members,* at least a 25% ownership interest in the school,
- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,
- is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or
- is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.

Ownership Interest—A share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

The regulations [34 CFR Part 600.30(e) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entities, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees.

To ensure that its participation will not be jeopardized, the school must report the change (including the name[s] of the person[s] involved) to IPD. Upon receipt of this notification, IPD will investigate and notify the school

* A family member is defined as a parent, sibling, spouse, or child; a spouse's parent or sibling or a child's spouse.

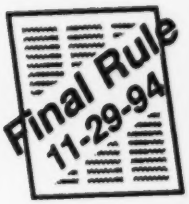
Reporting procedures

of its determination. The school may be required to take corrective action. If the school is unwilling or unable to correct the violation, the Department may initiate a fine, limitation, suspension or termination action.

ADDING LOCATIONS OR PROGRAMS

Adding locations and extensions

The Institutional Approval Notice that the Department sends to the school sometimes lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the Institutional Approval Notice, a school wishes to add a location at which **at least 50%** of an educational program is offered, it must notify the Department. Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must notify its accrediting agency, State licensing agency, and IPD.)



Previously, a school that wanted to add a location that offered 100% of a program was automatically required to apply for an eligibility and certification determination. Beginning with the 1995-96 award year, an automatic application is no longer required. However, as is the case with a school that wishes to add a location that will offer at least 50% of a program, the school is required to notify the Department of its desire to add a location that offers 100% of the program.

For a location to be added, it must meet all the institutional eligibility requirements as described in Sections One and Two of this Chapter, **except** the two-year rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application schedule(s), a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the State legal authorization from each State in which the school is physically located.

IPD will review the information, evaluating the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised Institutional Approval Notice or Institutional Acknowledgment Notice will be issued. The location is eligible as of the date of the Department's determination. The Department may require a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA.

Acquiring a previously closed school

Note that if a Proprietary Institution or a Postsecondary Vocational Institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to *any* acquisition of the closed school's assets, even an indirect acquisition.)

School may make own determination in certain cases

If a school adds other educational *programs* after receiving the Institutional Approval or Eligibility Notice, the school may make its own determination as to their eligibility in two cases—

- The added program leads to an associate, bachelor's, profession or graduate degree, or
- the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or similar field as that of a program at the school that the Secretary has already designated as an eligible program.

The added eligible programs will be reflected in the school's PPA when the school next renews its participation. Approvals from both the State and accrediting agencies will be required if the agencies have requirements for approving additional programs. If the school's eligibility determination for such a program is found to be incorrect, the school is liable for all SFA funds received for that program and all SFA funds received by or for students enrolled in that program.

The Department must approve programs to be added

In all other cases, the eligibility of an added program must be determined by the Department. (Previously, a school was allowed to make its own determination as to the eligibility of any added program, but was liable if it erroneously determined that eligibility. Because the occurrence of error—and the resulting liabilities—have been so high, the Department has reconsidered its position.) IPD will evaluate the quality of the new program and of the school. If it approves the additional program(s), a revised Institutional Approval Notice or Acknowledgment Notice will be issued. The program is eligible as of the date of the Department's determination. After the Department sends the Institutional Approval or Acknowledgment Notice, the school may disburse funds to students enrolled in that program. For more on program eligibility, see Section Two of this Chapter.

OTHER SUBSTANTIVE CHANGES

Eligibility does not automatically continue if a school changes its name, address, level of offering, etc. In addition to the changes discussed previously, a school must notify IPD when any of the following changes occur—

Name and address changes

- The name, location, and/or address of the school or of a branch campus,
- The name, location, and/or address of additional locations at which at least 50% of a program is offered,
- The method of measuring educational programs (e.g. clock hour to quarter hours), and
- Change in the level of a program (e.g., associate degree to bachelor's degree.)

A school that has made such a change should provide any information requested by IPD. Among other items, the school must send a new Application for Institutional Participation (or applicable schedules) showing the change. After receiving the required documents, IPD will reconfirm the school's eligibility and participation by sending a new Institutional Approval or Acknowledgment Notice and/or a new PPA.

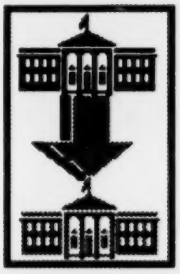
New written agreements

The school must also notify the Department when it establishes new written agreements with ineligible schools or organizations that will provide more than 25% of an educational program (see Section Six of this Chapter). The school must notify the Department at the same time as its accrediting agency or association, but within at least 10 days of the change.

Review of changes in accreditation

Changes in accreditation may also affect a school's eligibility to participate in the SFA programs. As mentioned in Section One of this Chapter, the Department will not recognize the school's accreditation if the school is in the process of receiving new accreditation or changing its accrediting agency or association, unless the school submits to the Department all materials relating to the prior accreditation, including materials demonstrating reasonable cause for the change.

REQUIREMENTS WHEN A SCHOOL LOSES ELIGIBILITY



A school loses its eligibility to participate in the SFA programs when it no longer meets the requirements of 34 CFR Part 600, or when the Department terminates the school under Subpart G of the General Provisions. Examples of situations that trigger loss of eligibility include the loss of accreditation and/or State licensure, expiration of a school's certification, the Department's revocation of a school's provisional certification, excessive cohort default rates, or a SPRE determination that the school is ineligible. The school (or one of its eligible locations) loses its eligibility if it stops providing educational instruction for reasons other than a natural disaster or normal vacation. 34 CFR 600.40 gives the notification requirements applicable to a school that loses its eligibility. In general, a school that ceases to be eligible must notify the Department within 30 days of the loss of eligibility.

Steps to be taken when school loses eligibility

REQUIREMENTS WHEN A SCHOOL'S SFA PARTICIPATION ENDS

The SFA participation of schools with high default rates is particularly at risk. In fact, many schools with high default rates have recently withdrawn voluntarily from the FFEL programs. Participating schools wishing to withdraw from the FFEL programs must notify the Department. For more information on the requirements and procedures, contact the Default Management Section at (202)708-9396.

When a school's participation in an SFA program ends, the school must immediately notify the Department and comply with the following minimum requirements—

- Submit to the Department within 45 days after the effective date of end of participation all financial, performance, and other reports required by each appropriate SFA program regulation, and a letter of engagement for an independent audit of all SFA funds it received under the program(s). (The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.)

See 34 CFR 668.26(b) for all requirements

- Report to IPD on the arrangements for retaining and storing (for a minimum of five years) all records concerning the administration of the SFA programs. (See Section Eight.)

- Tell the Department how it will provide for collecting any outstanding SFA student loans.

- Refund unearned tuition and fees. (See Section Five.)

In addition, a school that closes must refund to the Federal Government, or otherwise dispose of (by written instruction from the Department) any unexpended SFA funds it has received, except its administrative allowance, if applicable. The school must also return to the appropriate lender any loan proceeds the school has received but not delivered (or credited) to students. (If a school's participation in the NEISP or SSIG program ends, the school must inform the State and follow the State's instructions.)

If a school's participation ends during a payment period (or enrollment period, for the FFEL programs), but the school continues to provide education in the formerly eligible programs until the end of the payment or enrollment period, the school may—

- use SFA funds in the school's possession to satisfy unpaid Federal Pell Grant or campus-based commitments made for that payment period or previously completed payment periods before the school's participation ended (the school may request additional funds from the Department),

- satisfy any unpaid FFEL commitment made to a student for that period of enrollment by delivering subsequent FFEL disbursements to the student or by crediting them to his or her account (if the first disbursement was delivered or credited before the school's participation ended), and

- use SFA funds in the school's possession to satisfy unpaid Federal Direct Loan commitments made, for that period of enrollment before the end of participation (the school may request additional funds from the Department), to a student by delivering subsequent disbursements to the student or by crediting his or her account (if the first disbursement was delivered or credited before the school's participation ended).

Contact the Department's regional office staff for guidance in fulfilling these requirements and responsibilities.

LOSS OF ACCREDITATION

As mentioned earlier, a school that loses its accreditation is no longer eligible to participate in the SFA programs. The Department may not certify or recertify a school to participate in the SFA programs for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause, or after the school has voluntarily withdrawn from its accreditation under a show cause or suspension order. For information on how other changes in accreditation affect institutional eligibility, see Section One of this Chapter.

School may not be recertified for two years

However, if the Department determines that the loss of accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation. (The school also has up to 18 months in which to obtain new accreditation if its accrediting agency loses its Department recognition.)

Exceptions

The Department will not recertify a school that has lost its accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. (The school may not be recertified based on accreditation granted by a different accrediting agency during the two-year period.) Similarly, if a school voluntarily withdrew from accreditation during the last two years under a "show cause" or suspension order, the Department will not recertify unless the original order is rescinded by the accrediting agency.

Note that it is possible for accreditation to be withdrawn for one of the programs at the school, without affecting the accreditation (and eligibility) of the other programs at the school.

CORRECTIVE ACTIONS AND SANCTIONS*

Corrective action will be taken against any school that—

- Violates the law or regulations governing the SFA programs, the PPA, or any agreement made under the law or regulations, and/or
- Substantially misrepresents the nature of its educational programs, financial charges, or its graduates' employability. (For details on misrepresentation, see Section Nine.)

Actions due to loss of eligibility

* In addition to the penalties the Department may impose against a school, an individual is subject to a fine, or imprisonment, or both if he or she misappropriates SFA funds, destroys or conceals any financial aid record relating to an SFA program, illegally pays an eligible lender as an inducement to make or acquire a guaranteed loan, or gives false information or conceals information concerning the assignment of an SFA loan.

Corrective sanctions include emergency action, fines, limitation, suspension, and termination. Each of these procedures is discussed in detail below. In addition to its authority to sanction individual SFA schools, the Department can now (as a result of Reauthorization) sanction a third-party servicer. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all the schools/servicers has violated any of the SFA program requirements or has been suspended or debarred from program participation. (Substantial control is defined earlier in this section, and discussed in Section Two of this Chapter.)

Actions due to program violations or misrepresentation

If it appears that a school has violated program requirements, the Department may first allow the school to respond to the problem and indicate how it will correct it. If these informal means to correct the situation fail, or if the school has repeatedly violated the law or the regulations, the Department will initiate a limitation, suspension, or termination. It may also fine the school or take an emergency action.

The Department also has the authority to take emergency action against or terminate a school or program that no longer meets the eligibility criteria given in Section One of this Chapter. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and section 600.41 of the Institutional Eligibility regulations.

Emergency action

The Department may take an emergency action to withhold SFA funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the official must determine that the school is misusing Federal funds, that immediate action is necessary to stop this misuse, and that the potential loss outweighs the importance of using the established procedures for limitations, suspensions, and terminations. The school is notified by registered mail (or other more expeditious means) of the action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all SFA programs and prohibits the school from disbursing SFA funds or certifying FFEL applications. The action may not last more than 30 days, unless a limitation, suspension, or termination proceeding is begun during that period. In that case, the emergency action is extended until the proceeding, including appeal, is concluded. The school is given an opportunity to "show cause" that the action is unwarranted.

Fine

The Department may fine a school up to $25,000 for each statutory or regulatory violation. (The Department first notifies the school of the intent to fine so that the school can request a hearing, if it chooses.) If the school is proven guilty of violations, it may appeal to the Department for a compromise on the amount of the fines imposed at the hearing. In determining this amount, the Department will consider the school's size and the seriousness of its violation or of its misrepresentation.

Limitation

A limitation means that a school has agreed to abide by certain specific conditions or restrictions in its administration of SFA funds, so that it can continue to participate in any SFA program. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension

A suspension removes a school's participation in the SFA programs for a period not to exceed 60 days, unless a limitation or termination proceeding has begun. Suspension actions are used when a school can be expected to correct a program violation in a short time.

Termination and reinstatement

A termination ends a school's participation in the SFA programs. Participants who have violated the law or regulations governing the SFA programs, their PPA, or any other agreement made under the SFA regulations, may not be reinstated for at least 18 months, even if the school changes ownership. After 18 months have passed, the school may request reinstatement from the Department. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

The reinstatement request must be in writing and must show that the school has corrected the violation(s) on which the termination was based including repayment of all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. Also, the school must demonstrate that it meets the standards in Subpart B of the General Provisions (discussed in Section One), and enter into a new Program Participation Agreement. Within 60 days of receiving the request for reinstatement, the Department must either grant the request, deny the request, or grant the request subject to limitations.

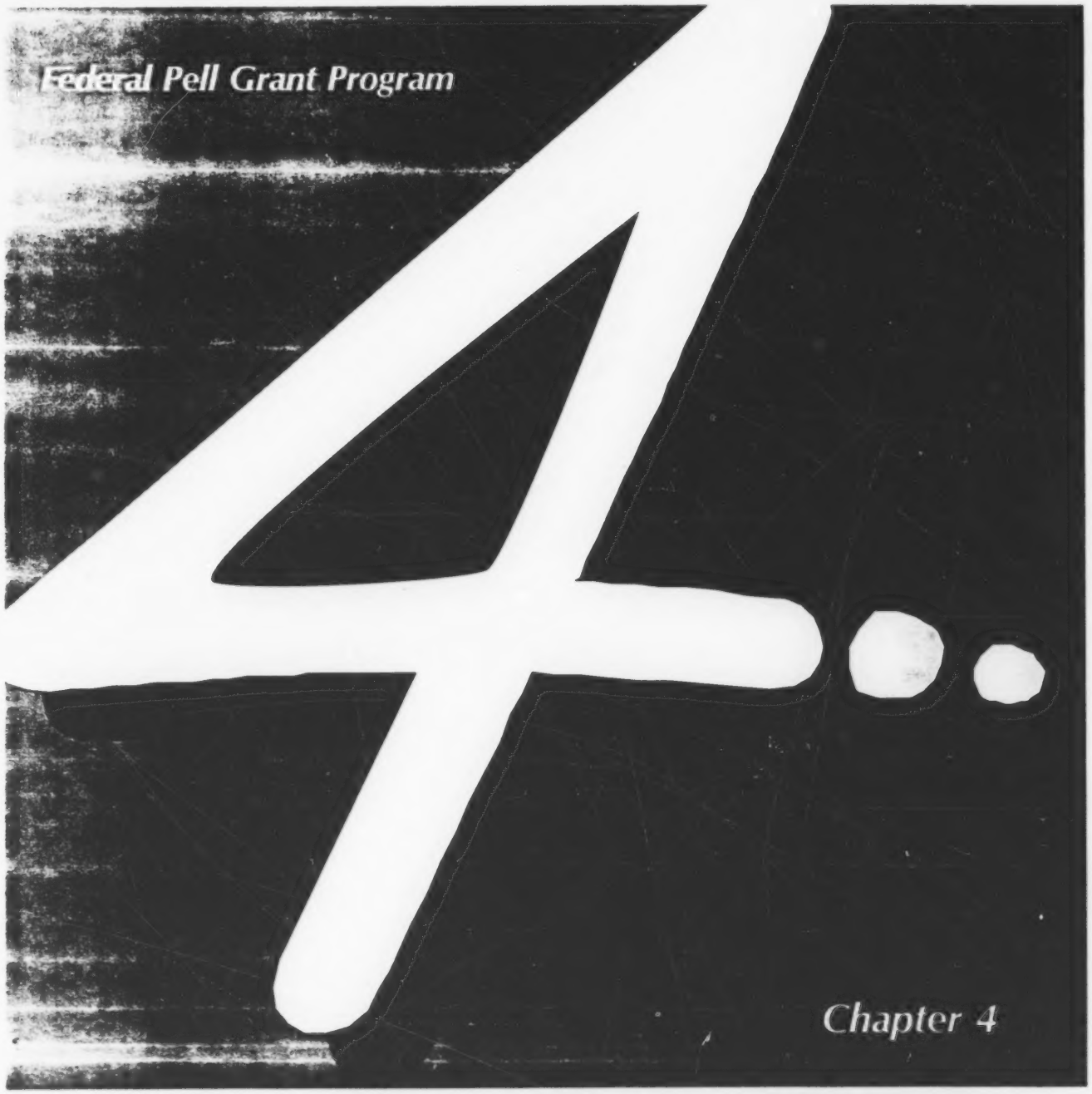
Repayment of funds to student or ED

As part of any fine, limitation, suspension, or termination proceeding, the Department may require the school to take corrective action. This action may include making payments to eligible students or repaying any illegally used funds to the Department of Education. The Department may offset any funds to be repaid against any benefits or claims due the school.

The Higher Education Amendments of 1992 have expanded the authority of guaranty agencies to initiate limitation, suspension, and termination proceedings, according to their own standards for institutional participation (as approved by the Department). As discussed earlier in this section, State review entities may request that the Department terminate a school, and schools should be aware that the Department of Education, State agencies, and guaranty agencies will readily share between themselves information regarding program violations and will generally abide by each other's disciplinary determinations.

*U.S. G.P.O.:1995-394-923

The Federal Student Financial Aid Handbook 1995-96



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INTRODUCTION

This chapter of the *Federal Student Financial Aid Handbook* describes how a school calculates and pays Federal Pell Grant (Pell) awards to eligible students and how it reports those payments to the U.S. Department of Education.

The discussion covers what the school must do to process an eligible student's Pell award after the school has received documentation of the student's eligibility. This chapter covers the basic steps in the Pell award process at the school: confirming student eligibility, calculating the award, making a disbursement, recalculating the award (if necessary), collecting overpayments, and reporting expenditures to the Department.

UPDATES

On November 1, 1994, the Department amended the Federal Pell Grant Program regulations. These changes become effective on July 1, 1995. Some of the major changes in the regulations are—

- The methods for calculating Pell payments for a payment period are revised. The regulations now provide separate calculations for programs with standard terms (semesters, trimesters, and quarters) and programs with nonstandard terms.
- The term "Institutional Student Information Record" (ISIR) is defined, and includes the document previously called an Electronic Student Aid Report (ESAR). The requirement that an ISIR be signed to be valid has been removed.
- Students can not be required to submit a Student Aid Report (SAR) if the school participates in the electronic or magnetic disbursement systems (Electronic Data Exchange [EDE], Recipient Data Exchange [RDE], or the Floppy Disk Data Exchange) and receives the student's ISIR.
- Schools must pay a student based on a valid ISIR, as well as a valid SAR.

- The term "Payment Voucher" is redefined to include electronic and magnetic payment records. 1995-96 is the last year that the Department will provide paper Payment Vouchers.
- The term "annual award" is defined.
- Schools can no longer make a first disbursement without a valid SAR or ISIR.

Other changes affecting the Federal Pell Grant Program are—

- Students incarcerated in federal or state institutions are not eligible for Pell.

- The General Provisions regulations now provide procedures for schools to request a waiver of the requirement that an academic year be at least 30 weeks. The revised Pell calculations explain how schools that have received a waiver should calculate awards.
- Only students being verified are required to sign a Statement of Updated Information; Pell recipients who are not being verified are not required to sign this statement.

- The General Provisions regulations now include cash management provisions that apply to all programs; these provisions replace some of the Pell-specific disbursement and accounting requirements.
- Students cannot receive more than one Scheduled Award for the 1995-96 award year. The regulations allow students to receive two Scheduled Awards in an award year only if the Department determines that sufficient funds are available from the appropriations for that award year. No funds are available for this purpose for 1995-96.

SECTION ONE: STUDENT ELIGIBILITY

Unlike the campus-based programs (see Chapters 5 through 8 of this handbook), a student's eligibility for a Pell does not depend on the availability of funds at the school. The Department provides funds to each participating school to pay eligible students based on the Payment Vouchers (either paper or electronic or magnetic records) the school submits to the Department. (The funding process is discussed in Section Seven of this chapter.)

Because the Department pays Pell awards to all eligible students, the school is not responsible for selecting recipients. However, the school must ensure that each recipient meets the eligibility requirements for the Federal Pell Grant Program, as discussed below, and that each eligible student is paid the amount for which he or she is eligible.

GENERAL ELIGIBILITY REQUIREMENTS

Most of the student eligibility requirements for the Federal Pell Grant Program are common to all the student financial assistance (SFA) programs. General SFA eligibility requirements are discussed in greater detail in Chapter Two, Section One. Briefly, for a student to be eligible to receive assistance from the SFA programs, he or she must—

- be either a U.S. citizen or an eligible noncitizen;
- have a high school diploma or its recognized equivalent (such as a General Education Development certificate). Two alternatives, which are acceptable for all SFA programs, are for the student to have passed an independently administered test approved by the U.S. Department of Education, or meet other standards an individual state establishes that are approved by the Department. For more information, see Chapter Two, Section One;
- be making satisfactory academic progress in his or her course of study;

- file with the school a Statement of Educational Purpose, a Statement of Selective Service Registration Status, and a Certification Statement on Refunds and Defaults. (These statements are discussed in Chapter Two, Section One.)

A student is *not* eligible for any SFA funds if he or she—

- is enrolled in an elementary or secondary school;
- is in default on an SFA loan or owes a repayment or is liable for an overpayment on an SFA grant; or
- has borrowed in excess of the annual or aggregate loan limits for the SFA loan programs.

In most cases, if a student is a member of a religious order, he or she is eligible ***only*** for a Federal Stafford Loan. (For more information, see Chapter Two, Section One.)

Financial aid transcript

If a student transfers from one postsecondary school to another within the award year, the student must arrange to have the previous school(s) send a financial aid transcript to the new school. See Chapter Three, Section Four of this handbook for a discussion of the financial aid transcript.

UNDERGRADUATE STUDENT

A student must be an undergraduate to receive a Pell. The regulations define an undergraduate as one who is enrolled in an undergraduate course of study and who has not earned a baccalaureate degree or its equivalent or a first professional degree.[1] (By "professional degree," we mean degrees offered by professional programs such as pharmacy, dentistry, or veterinary programs.)

Length of undergraduate study

An undergraduate course of study under this definition is one that usually does not exceed 4 academic years or is a program of 4 to 5 academic years designed to lead to a baccalaureate or first professional degree. If the program is longer than 5 years (for example, a 6-year pharmacy program), then students enrolled in that program are considered undergraduate students only for the first 4 academic years of the program.

[1]Occasionally, a student will complete the requirements for a bachelor's degree but will continue taking undergraduate courses without accepting the degree. The school must decide at what point it considers the student to have completed the baccalaureate course of study—when the student completes the requirements for the degree, or when the student actually receives the degree. If the school considers the student to have completed the baccalaureate course of study, the student is no longer eligible to receive a Pell.

It does not matter if the baccalaureate or professional degree is from an unaccredited or foreign school, or is not accepted or recognized by the school at which the student is enrolled. A student who has earned such a degree is still ineligible.

Foreign, unaccredited degrees

Note that a student who has already received an associate's degree, but who enrolls in another undergraduate program, would continue to be considered an undergraduate student until he or she has completed the academic curriculum requirements for a first bachelor's degree. (This is true for *any* student who has received a certificate or diploma at less than the baccalaureate level.)

Degrees at less than the baccalaureate level

DURATION OF ELIGIBILITY

The duration of eligibility for Pell is defined as the period required for the student to complete the first undergraduate baccalaureate course of study.

Any noncredit or remedial coursework the student takes is not counted toward the period of time required to complete the first baccalaureate degree. However, there is a separate, one-year limit on the amount of noncredit or remedial coursework for which the student may receive SFA program funds. (See "Remedial Coursework" in Section Three of this chapter.)

Coursework not counted toward degree

THE EFC AND FEDERAL PELL GRANT ELIGIBILITY

The Expected Family Contribution (EFC) formula is the standard formula used in determining financial need for SFA programs (except for Federal PLUS and unsubsidized Federal Stafford Loans, which do not require a determination of need). The formula produces an EFC number. To be eligible for a Pell for 1995-96, a student must have a nine-month EFC of 2140 or less.

The less the student and family can contribute to educational costs, the greater the Pell the student could receive. Thus, the neediest students will have an EFC of 0 and may be eligible for the maximum Pell award ($2,340 for 1995-96) if their cost of education (also known as cost of attendance) will be at least $2,340, and if they will be attending full time for a full academic year.

EXAMPLE

1995-96 Scheduled Awards based on a cost of attendance of at least $2,340.
(EXAMPLE ONLY—DO NOT USE TO MAKE AWARDS)

EFC	0	300	600	900	1200	1500
Award	2340	2090	1790	1490	1190	890

As the EFC increases, the Scheduled Award decreases.

As the EFC increases, the amount of the award decreases; after the maximum EFC eligibility (2140 for 1994-95), the award becomes 0.

The EFC is computed by the Central Processing System (CPS) in Iowa and is based on the information the student reported on the "Free Application for Federal Student Aid" (FAFSA). The EFC is included along with the student's application information on a SAR or ISIR. See "Documenting the Student's Eligibility for Payment" in this section for more information on SARs and ISIRs.

Professional judgment

The aid administrator, through professional judgment, may adjust one or more of the data elements used to calculate the EFC. The adjustment must be based on a student's individual circumstances and must be documented in the student's file. Note that aid administrators may not adjust the EFC number or the formula. If the EFC is adjusted for the Federal Pell Grant Program, the same adjustment must also be used when awarding campus-based aid and subsidized Federal Stafford Loans. For more information on adjusting the EFC, see the 1994-95 *Counselor's Handbook for Postsecondary Schools.*

EFC change that affects award must be reprocessed through CPS

NOTE: Any recalculation of the EFC that results in a change in the student's Pell award must be submitted through the CPS to establish the student's eligibility for Pell payment. Resubmission is not a requirement for EFC changes that do not affect the award, nor is it a requirement for the campus-based programs or for unsubsidized Federal Stafford Loans. However, the EFC the school submits on its payment record to the Department for the Federal Pell Grant Program must match the EFC calculated by the CPS.

SAR or ISIR

The SAR is a paper document sent to the student by the application processor. An ISIR is a paper document or computer-generated electronic record sent to a school by the CPS. Both SARs and ISIRs contain the student's application information and the EFC. To pay a student his or her Pell award, a school must have received a valid SAR or ISIR containing an eligible 9-month EFC. The school must receive the document while the student is still enrolled and eligible. Once it is received, the school ***must*** pay the student.

Signed statement no longer required

A valid SAR or ISIR is defined as a SAR or ISIR where all the information is complete and accurate. Previously, for an ESAR or ISIR to be valid, the student was also required to sign a statement certifying the data's accuracy. This signature requirement has been removed from the new definition of valid ISIR. As a result, an electronic ISIR may be stored electronically. Schools must be careful to store the record as received from the CPS. Note that the student is still required to sign the statement on the FAFSA certifying that the information provided is correct. If the student applies electronically through his or her school, the school must be sure that it keeps the signed FAFSA in the student's file. In addition, the school must keep signed documentation for corrections submitted electronically. See *A Guide to 1995-96 SARs and ISIRs* for more information.

In previous years, students were required to sign a Statement of Updated Information in order to receive a Pell, and update household size and number in college as of the date they signed the Statement. The verification regulations have removed this requirement for students not being verified effective July 1, 1995. See Section One of Chapter Two for more information on statements students must sign.

June 30/last day of enrollment deadline

In most cases, the school must receive the valid SAR or ISIR no later than June 30 of the end of the award year, or the student's last day of enrollment, whichever comes first. (Note that if June 30 falls on a weekend or holiday, the next working day is the deadline). As mentioned above, the student must still be enrolled and eligible for payment. If the student leaves school or completes the program and the school does not have a valid SAR or ISIR, the student is not eligible for a Pell.

Verification extension

The deadline above is extended for students undergoing verification. The verification extension allows the school to accept a student's revised SAR or ISIR 60 days after the student's last day of enrollment. Note that the extension may not go beyond August 30 following the end of the award year. The school must have ***already*** received a SAR or ISIR with an eligible EFC while the student was enrolled and eligible for payment.

The only students who will not receive a SAR in the mail are those who submitted their application data electronically (through EDE), or those for whom application data corrections were submitted electronically[2]. The school must provide these students with a copy of the ISIR it received from the CPS. The school must also document in its files that it has provided a copy of the ISIR to the student. For complete information on SARs and ISIRs, see *A Guide to 1995-96 SARs and ISIRs*.

[2]Note that for 1996-97 and subsequent years, these students *will* receive SARs or SAR-like documents from the CPS.

SECTION TWO: CALCULATING THE FEDERAL PELL GRANT

In this section, we will review the basic steps in calculating a Pell award. These steps, in effect, adjust the Pell award to take into account the student's cost of attendance for the academic year, the student's enrollment status, the ability to contribute to his or her education (EFC), the amount of coursework taken in the award year, and the length of the student's enrollment during the academic year. The regulations published on November 1 revised the calculations, effective July 1, 1995.

Pell calculations for most programs can be performed by following the steps in this section. However, there are some situations which require further adjustments. These situations are discussed in Section Three, "Special Program Considerations." Check that section to see if these special considerations apply to any of the programs at your school.

See Section Three for special considerations

BASIC CONCEPTS

Before we explain the Pell calculation procedures, some basic concepts need to be defined.

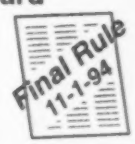
Scheduled Award

A primary concept in the Federal Pell Grant Program is the "Scheduled Award," which is the amount of a Pell a student receives during an academic year for a given cost of attendance and EFC, assuming the student is enrolled ***full time*** for a ***full*** academic year. For example, a full-time student with a cost of attendance of $6,000 for a full academic year and a nine-month EFC of 0 may be eligible for the maximum Scheduled Award ($2,340 for 1995-96). A student will receive less than a Scheduled Award if he or she is enrolled less than full time or is enrolled for less than a full academic year. For instance, if a student attends two semesters as a half-time student at a semester-hour school, the student would receive half a Scheduled Award. Or, if the student enrolled full time in a program late in the award year and only completed half of an academic year in that program, he or she would receive no more than half of a Scheduled Award.

The concept of the Scheduled Award has always been important because it has limited the student to a maximum payment for an award year. The Scheduled Award cannot be exceeded, even if the student transfers to another school or attends a summer session.

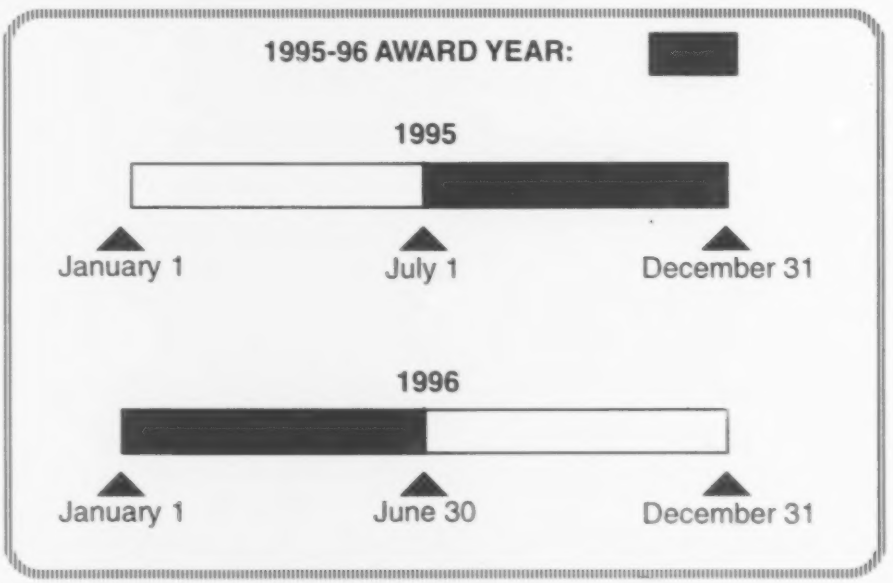
Annual Award

The annual award is the maximum amount (from the appropriate Payment or Disbursement Schedule) a student would receive during a full academic year for a given enrollment status, EFC, and cost of attendance. Note that for a full-time student, the annual award will be the same as the Scheduled Award.



Award Year

The award year begins on July 1 of one year and ends on June 30 of the next year.



As already noted, a student cannot be paid more than one Scheduled Award for an award year. The regulations provide that on a case-by-case basis, a student may receive up to a second Scheduled Award during a single 12-month period in certain circumstances. However, no awards can be made under this provision unless the Department determines that sufficient funds are available. There is no funding for payment of a second Scheduled Award for 1995-96; therefore, students will not be able to receive more than one Scheduled Award for the 1995-96 award year.

Academic Year

The academic year is used to measure the amount of coursework the student will complete during the award year. The school must define the academic year for each program of study; once it has defined the academic year for that program, it must use that definition for all SFA purposes. An academic year must contain at least 30 weeks of instructional time; within the weeks of the academic year, a full-time student must complete at least 24 semester or trimester hours or 36

quarter hours at a school measuring program length in credit hours, or at least 900 clock hours at a school measuring program length in clock hours.

The General Provisions regulations published on November 29, 1994 provide a definition of academic year and allow schools to apply for a waiver of the 30 week minimum. See Chapter Three, Section One for more information on the definition of academic year.

Calendar weeks vs. weeks of instructional time

You should note that for the Pell calculations, you will need to determine how many weeks of instructional time are in the program or academic year, or in each term if the school uses terms. In some cases, the weeks of instructional time will not be the same as the number of calendar weeks; Chapter Three explains how to determine weeks of instructional time. Be sure that you do not use calendar weeks when you should be using weeks of instructional time.

Different academic year for different programs

Depending on the academic nature of the programs involved, a school may define an academic year differently for different programs of study. For instance, it may set an academic year of 900 clock hours and 30 weeks in one program and 1,200 clock hours and 40 weeks in another. The school may even use a different academic year for an evening program, as opposed to a day version of the same program, as long as each academic year meets the minimum requirements established for an academic year.

Standard term

Term-based schools may have either *standard terms* or *nonstandard terms*. Standard terms are semesters, trimesters, or quarters, with two semesters or trimesters or three quarters in the fall through spring terms. In addition, the full-time enrollment status for the term must be at least 12 credit hours. Any other type of term is a nonstandard term. Nonstandard term has sometimes been used to refer only to terms of unequal length, but under this definition even terms of equal length may be nonstandard terms.

Now that some basic concepts have been defined, we can move on to the process of calculating a payment for a payment period. The regulations specify five different formulas for calculating Pells; the formula you use depends on the type of program. However, each formula has the same basic steps. We will begin by explaining how to determine which formula to use. We will then describe the basic calculation steps, and explain how the steps vary for different formulas. Finally, examples of calculations are provided.

CHOOSING A FORMULA

Formula 4 or 5

Three of the formulas (Formulas 1, 2, and 3) are used for credit-hour, term-based programs. Of the remaining two formulas, Formula 4 is used for all clock-hour programs and for nonterm credit-hour programs, and Formula 5 is used for students enrolled only in correspondence courses (not including residential components of correspondence programs). Calculations for correspondence programs are discussed separately beginning on page 4-31 of this section.

Formula 3

A school can use Formula 3 to calculate Pells for any credit-hour, term-based program. However, if the program meets certain requirements, Formula 1 or 2 may also be used. If the program meets the requirements for more than one formula, the school may choose which formula to use.

Formula 1 or 2

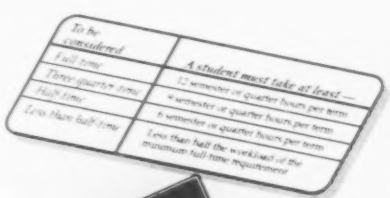
To qualify for Formula 1 or 2, the program must—

- use an academic calendar that includes two semesters or trimesters (fall and spring) or three quarters (fall, winter, and spring);
- not have overlapping terms (that is, the beginning and end of the term must be the same for all students in the program); and
- define 12 credit hours as full-time enrollment for each term.

If the program provides at least the statutory minimum of weeks for an academic year (30 weeks of instructional time, unless the school has received a waiver from the Department) in the fall through spring terms, Formula 1 may be used. If it does not provide this minimum in the fall through spring terms, Formula 2 may be used. Note that in both cases the school may decide to use Formula 3 instead.

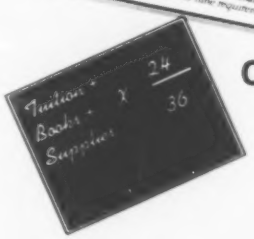
No matter what formula you use, there are five basic steps to calculating a Pell award:

STEP 1



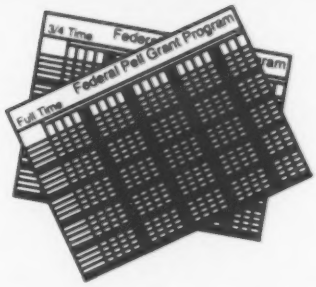
Determine Enrollment Status

STEP 2

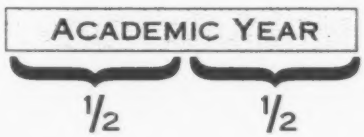


Calculate Cost of Attendance

Determine Annual Award

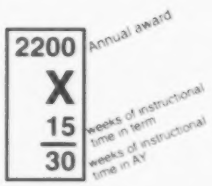


STEP 3



Determine Payment Periods

STEP 4



Calculate Payment for a Payment Period

STEP 5

We will now discuss each of these steps in more detail.

DETERMINING ENROLLMENT STATUS

The student's enrollment status is based on the number of credit or clock hours for which the student enrolls. It determines which cost components are used to calculate the student's Pell cost of attendance (COA) and, for some programs, establishes which Payment or Disbursement Schedule is used to determine the student's annual award.

Enrollment status change during year

If a student's enrollment status changes during the year, the school may have to recalculate the student's Pell payment based on the student's new enrollment status. See Section Five of this chapter for a discussion of when a school is required to recalculate based on a change in enrollment status.

For credit-hour programs with terms, the school must determine whether the student is enrolled full-time, three-quarter-time, half-time, or less than half-time. This allows the school to determine which Payment or Disbursement Schedule it needs to use. For clock-hour programs and for credit-hour programs without terms, the school only needs to determine if the student is enrolled at least half-time or less than half-time, so that it can calculate the COA correctly.

School defines full-time enrollment

If the school has standard terms (i.e., semesters, trimesters, or quarters), it may establish its own standards for determining enrollment status for each of its academic programs, provided its standards meet the minimum requirements defined in the regulations. Note that the school's academic standard may differ from the enrollment standard used by the financial aid office for SFA purposes. For example, the school may define full-time as six hours during the summer; however, the financial aid office uses 12

hours as full-time for all terms including the summer term. The school must apply its standards consistently to all students enrolled in the same program of study, for all SFA purposes.

The following charts show the minimum regulatory requirements for each enrollment status classification for students not enrolled in correspondence coursework. For standard term-based programs, if a school's financial aid office establishes full-time status as greater than 12 semester or quarter hours, the financial aid office may still define a three-quarter-time enrollment status as nine semester or quarter hours and a half-time enrollment status as six semester or quarter hours.

Enrollment Status Minimum Requirements—
Standard Term, Credit-Hour Programs

To be considered	*A student must take at least —*
Full-time	12 semester or quarter hours per term
Three-quarter-time	9 semester or quarter hours per term
Half-time	6 semester or quarter hours per term
Less than half-time	Less than half the workload of the minimum full-time requirement

Enrollment Status Minimum Requirements—
Clock-Hour Programs or Nonstandard-Term or Nonterm Credit-Hour Programs

To be considered	*A student must take at least —*
Full-time	24 semester hours or 36 quarter hours per academic year, or prorated equivalent for program less than an academic year *or* 24 clock hours per week
Less than half-time	Less than half the workload of the minimum full-time requirement

Enrollment status for nonstandard terms

If a school's academic calendar contains nonstandard terms[3], the school must determine the student's enrollment status for each nonstandard term. To determine enrollment status for a nonstandard term, the school must first determine the number of credit hours required for full-time enrollment status using the following formula:

$$\text{Credit hours in the academic year} \times \frac{\text{Weeks of instructional time in the nonstandard term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting number is not a whole number, it is rounded up to the next whole number. After the school has determined the number of credit hours

[3]See "Basic Concepts" earlier in this section for the definition of standard and nonstandard terms

required for full-time enrollment, the school can then determine the less-than-full-time status for the nonstandard term using the following formula:

$$\frac{\text{Credit hours student takes in the nonstandard term}}{\text{Credit hours required for full-time status in the nonstandard term}}$$

The resulting fraction is then matched with the appropriate less-than-full-time status classification. The fraction must equal or exceed the enrollment status classification. For example, two-thirds would correspond to a half-time enrollment status. The following example illustrates how the enrollment status for a nonstandard term is determined.

Example

The academic calendar for a student's program of study consists of four 8-week terms. The school defines the program's academic year as 24 semester hours and 32 weeks of instructional time. A full-time student is expected to complete at least 24 semester hours during an academic year.

The minimum number of semester hours for full-time status during each of the terms is calculated as follows:

$$\textbf{24 semester hours} \times \frac{\textbf{8 weeks}}{\textbf{32 weeks}} = \textbf{6 semester hours}$$

Therefore, a student must complete 6 semester hours each term to be a full-time student.

A student enrolls for four semester hours during the first 8-week term and for six semester hours during each of the remaining 8-week terms. The student's enrollment status for the first term is calculated as follows:

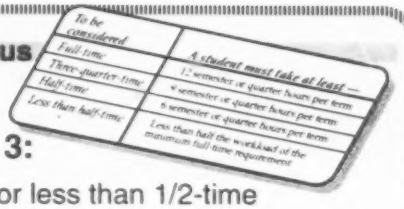
$$\frac{\textbf{4 semester hours}}{\textbf{6 semester hours}} = \frac{4}{6} = \frac{2}{3}$$

Because two-thirds is less than three-quarters but greater than one-half, the student's enrollment status is half-time.

For the remaining three terms, the student's enrollment status meets the requirement for full-time (6 semester hours); therefore, the student is enrolled full-time for those three terms.

Step 1 summary by formula

STEP 1: Determine Enrollment Status


To be Considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the minimum full-time requirement

Formula 1, Formula 2, Formula 3:

- Full-time, 3/4-time, 1/2-time, or less than 1/2-time

Formula 4:

- At least 1/2-time or less than 1/2-time

CALCULATING THE COST OF ATTENDANCE

The components used to calculate a student's Pell COA are the same as those used to calculate the COA for the other SFA programs. See Section Two of Chapter Two for a list of these components.

Cost for full-time for full academic year

Although schools must use the same components for calculating a student's cost for the Federal Pell Grant Program as for the other SFA programs, the Pell COA is always based on costs for a *full-time student for a full academic year*. That is, the amount of each component must always be a full-time, full academic year cost.

Less than half time

If the student is enrolled less than half-time, the aid administrator may include in the Pell COA only those cost components allowable for less-than-half-time enrollment. See Chapter Two for more information, and for other restrictions on COA components.

For students who are less than half time, COA may include only:

- tuition and fees;
- an allowance for books and supplies;
- transportation (but not miscellaneous expenses); and
- an allowance for dependent care expenses

The major difference between the COA for Pell and for other SFA programs is that under Pell, costs for programs or enrollment periods longer or shorter than an academic year must be prorated so that they apply to one full academic year.[4] This is true for both components of the academic year definition, the number of weeks and the number of clock/credit hours: if the program or period of enrollment differs from the academic year in either component, the costs must be prorated to determine the Pell COA.

[3]Note that prorating the COA will not affect the amount of Pell the student receives unless the proration reduces the cost below $2,340 or raises it above $2,340. However, you must enter accurate amounts when reporting disbursements. See Section Seven.

For purposes of this proration, COA components are now grouped into two categories:

Costs: credit/clock hours

1. **Costs associated with credit or clock hours** (that is, costs associated with the educational program)—

   —Tuition and fees
   —Books and supplies[5]
   —Loan fees[5]

   The costs associated with credit hours ***do not have to be prorated*** if they represent the cost for a full-time student to attend a full academic year (at least 24 semester hours, 36 quarter hours or 900 clock hours).

Costs: weeks of instructional time

2. **Costs associated with weeks of instructional time**—

   —Room and board[5]
   —Miscellaneous expenses[5]
   —Disability expenses[5]
   —Transportation[5]
   —Dependent care[5]
   —Study abroad
   —Reasonable costs associated with employment as part of a cooperative education program

   Costs associated with weeks ***do not have to be prorated*** if they represent the cost for a full-time student to attend a full academic year (at least 30 weeks of instructional time).

Although the law specifies one combined allowance for books, supplies, transportation, and miscellaneous personal expenses, the aid administrator must establish separate cost categories for books and supplies and for transportation and miscellaneous personal expenses, in order to properly prorate the costs.

To prorate costs associated with credit/clock hours, use the following formula:

Credit/clock hour proration

$$\text{Costs} \times \frac{\text{Credit/clock hours in program's definition of academic year}}{\text{Credit/clock hours for which costs apply}}$$

[5]Not available for all students/programs. See Chapter Two, page 2-45*ff*.

Week proration

Prorate costs associated with weeks of instructional time by using this formula:

$$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time for which costs apply}}$$

The student's Pell COA is the sum of the costs (prorated if necessary) for components associated with credit hours and components associated with weeks of instruction. This Pell COA must be used when determining the amount of the student's annual award. Following are some examples showing how to determine full-time, full-year costs.

Example 1

A school's academic calendar consists of two 14-week semesters, providing 28 weeks of instructional time (the school was not granted a waiver of the 30-week requirement). A student is enrolled in a program for two semesters. The school defines the academic year for the program as 24 semester hours and 30 weeks of instructional time. The school has determined that the student's full-time costs for the two semesters include $2,500 tuition and fees, $6,000 room and board, $450 books and supplies, $250 transportation, $1,200 dependent care, and $600 miscellaneous personal expenses.

Credit hour costs		Week costs	
$2,500	tuition and fees	$6,000	room and board
+ $450	books and supplies	+ $250	transportation
= $2,950	total	+ $1,200	dependent care
		+ $600	miscellaneous personal expenses
		= $8,050	total

Because the costs have been determined for a period meeting the minimum number of credit hours for full-time for a full academic year (24 semester hours), the costs associated with credit hours (tuition and fees, books and supplies) do not have to be prorated. However, because this period is shorter than the academic year definition in number of weeks, the costs associated with weeks (room and board, transportation, dependent care, and miscellaneous personal expenses) must be prorated:

$$\$8{,}050 \times \frac{30 \text{ weeks}}{28 \text{ weeks}} = \$8{,}625$$

Therefore, this student's Pell COA for an academic year is $2,950 + $8,625= $11,575.

Example 2

A student is enrolled in a 25-week, 750-clock-hour program, with the following costs: $3,000 tuition and fees, $2,500 room and board, $300 books and supplies, $200 transportation, and $400 miscellaneous personal expenses. The school defines the academic year for this program as 900 clock hours and 30 weeks of instructional time.

Clock hour costs		Week costs	
$3,000	tuition and fees	$2,500	room and board
+ $300	books and supplies	+ $200	transportation
= $3,300	total	+ $400	miscellaneous personal expenses
		= $3,100	total

Because the student's program is shorter than the academic year both in weeks and clock hours, both types of costs must be prorated:

Clock hour costs

$$\$3{,}300 \times \frac{900 \text{ clock hours}}{750 \text{ clock hours}} = \$3{,}960$$

Week costs

$$\$3{,}100 \times \frac{30 \text{ weeks}}{25 \text{ weeks}} = \$3{,}720$$

Therefore, this student's Pell COA is $3,960 + $3,720 = $7,680.

Actual vs. average cost

While schools have the option of determining actual costs for individual students, most schools prefer to determine the COA by using an average cost for a group of similar students. (For example, your school may have different charges for different academic programs or different charges for in-state vs. out-of-state students.[6])

[6]The tuition charge may include any additional amount charged to "out-of-state" or "out-of-district" students. (Schools that use average charges are not required to develop a separate average charge based on residency, though this is certainly permissible and often desirable.)

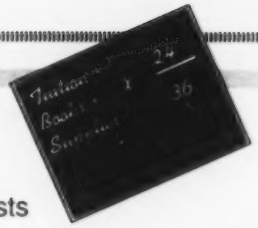
Note that you cannot simply add the full-time charge of an in-state student to the full-time charge of an out-of-state student and divide the sum by two to find an average tuition and fees component for these students. The result would be tuition and fees too high for some students and too low for others. Instead, you must use a weighted average tuition and fees for all students.

For example, a school that had 100 students, 90 in-state and 10 out-of-state, should use the following calculation:

90 x in-state charge = X
10 x out-of-state charge = Y
Total = Z
Z ÷ 100 = weighted average tuition and fees

Step 2 summary by formula

STEP 2: Calculate Pell COA



Formula 1:

- Full-time, full academic-year costs

Formula 2:

(1) Full-time, full-year costs for tuition, fees, books, supplies, loan fees

(2) Full-time, full-year costs for room, board, transportation, miscellaneous personal, dependent care, study abroad, disability-related, and employment-related cooperative education program expenses must be prorated upward to obtain costs for a full academic year according to the following formula:

$$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the fall through spring terms}}$$

- COA = (1) + (2)

Formula 3 and Formula 4:

- Full-time, full academic year costs
- If the student's program of study or enrollment period is longer or shorter than an academic year, full-time costs are prorated upward (or downward) using the following formulas:

(1) For tuition, fees, books, supplies, and loan fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

(2) For room, board, transportation, miscellaneous personal, dependent care, study abroad, disability-related, and employment-related cooperative education program expenses:

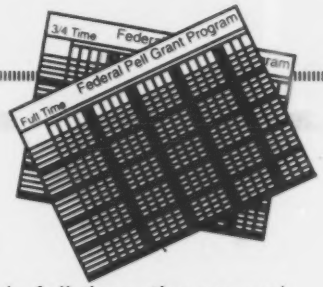
$$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

- COA = (1) + (2)

DETERMINING THE ANNUAL AWARD

Once you have figured the student's COA, you can use the Payment Schedule or appropriate part-time Disbursement Schedule[7] to look up the student's annual award. As mentioned earlier, the annual award is the maximum amount a student would receive during a full academic year for a given enrollment status, EFC, and cost of attendance. For students enrolled in clock-hour or nonterm credit-hour programs, the annual award is always determined from the full-time Payment Schedule, even if the student is attending less than half time.

Please remember that you do not have the discretion to refuse to pay an eligible part-time student.



STEP 3: Determine Annual Award

Step 3 summary by formula

Formula 1, Formula 2, Formula 3:

- If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Formula 4:

- Always taken from full-time Payment Schedule (Scheduled Award)

DETERMINING THE PAYMENT PERIODS

The program's academic year is divided into payment periods. Pell awards must be paid in installments over the academic year to help meet the student's cost in each payment period. The payment period determines when Pell funds are disbursed and the exact amount to be disbursed.

Term programs

For term programs, the payment period is the term. However, if the term program is measured in clock hours, the student must complete all hours scheduled for a term before receiving another disbursement. See "Terms

[7]The Payment and Disbursement Schedules are mailed to all participating schools in the winter before the award year begins. Many schools and servicers have programmed the Schedules, using the Department's specifications, for use on microcomputers or mainframes.

With Clock Hours" in this section for more information on how to determine subsequent payment periods if the student does not complete all clock hours in a term.

Nonterm programs

For nonterm programs, the school must define, in writing, the payment periods as measured in clock or credit hours for each program. The regulations require that there be at least two equal payment periods for programs that are shorter than an academic year, or at least two equal payment periods in each academic year for programs longer than an academic year.

Less than AY

Equal to or longer than AY

If the program of study is shorter than an academic year, each payment period is the period of time in which the student completes half the credit or clock hours in the program. If the program of study is equal to or longer than an academic year, each payment period is the period of time in which the student completes half the credit or clock hours in the academic year. If the number of credit or clock hours to be completed in the final academic year is fewer than the number in the academic year, each payment period is the period of time in which the student completes either half the academic year or all of the remaining hours in the program, whichever is shorter.

More frequent payment periods

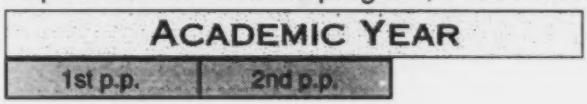
Regulations also permit a school to establish more frequent payment periods for its programs of study. For example, a school may choose to use monthly payment periods. The payment periods must be equal in number of credit or clock hours, except that a final payment period for a program may be shorter than the other payment periods.

For all nonterm programs, the payment period ends when the student has completed all the credit or clock hours in the payment period. Because the length of a payment period (measured in weeks of instructional time) is based on what a full-time student is expected to complete, part-time students will take longer than full-time students to complete each payment period. However, as we will discuss in Step 5, the number of weeks of instructional time that is used in the formula to calculate the payment for the payment period will remain the same. The following examples will help to illustrate these minimum requirements for determining the payment period for nonterm programs.

Nonterm payment period examples

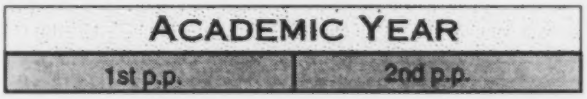
Example 1

Andrea is enrolled in a 600-clock-hour program of study. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Andrea's program is shorter than an academic year, the two payment periods would be based on the length of her program (in clock hours). Each payment period is one-half the program, or 300 clock hours.



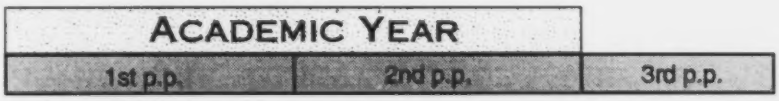
Example 2

Bill is enrolled in a 900-clock-hour program of study. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Bill's program is equal to an academic year, the two payment periods are based on the length of the academic year (in hours). Each payment period is half an academic year, or 450 clock hours.



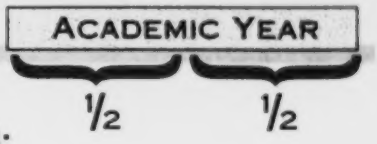
Example 3

Charles is enrolled in a 1,200-clock-hour program of study. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Because Charles's program of study is longer than one academic year, the payment periods in the first year are based on the length of the academic year. Each of these payment periods is 450 clock hours (half the academic year). After the first year, only 300 clock hours remain, less than an academic year. Because 300 hours is less than half the academic year, the remaining 300 clock hours is the third and final payment period.



Step 4 summary by formula

STEP 4: Determine Payment Periods



Formula 1, Formula 2, Formula 3:

- Payment period is the academic term

Formula 4:

For nonterm programs:

- Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each academic year for programs longer than or equal to an academic year
- Length of payment period measured in credit or clock hours
  - (1) Program shorter than an academic year:
    - Payment period = time it takes a full-time student to complete 1/2 of the program in credit or clock hours
  - (2) Program = an academic year:
    - Payment period = time it takes a full-time student to complete 1/2 of the academic year in credit or clock hours
  - (3) Program longer than an academic year:
    - First and second payment periods same as (2) above
    - Subsequent full academic years same as (2) above
    - If the remaining portion of the program is shorter than an academic year, each payment period is either 1/2 the academic year or the time it takes a full-time student to complete the remaining hours in the program, whichever is completed first.

For term-based, clock-hour programs:

- Payment period is the academic term, but extends for as long as it takes the student to complete the clock hours for which payment has been made
- If the payment period extends into another term:
  - Subsequent payment period consists of only those hours not included in the previous term
  - Remaining clock hours are accounted for by an additional payment period at the end of the student's program of study

CALCULATING THE PAYMENT FOR A PAYMENT PERIOD

Once you have determined the payment period, you can determine how much of the annual award the student will receive for that payment period. A student may receive a Pell payment only for those terms, or payment periods, in which the student is enrolled. For some students, the total disbursements for all payment periods within the award year will equal the amount of the Scheduled Award. However, students who attend for less than an academic year (in either clock/credit hours or weeks of instructional time) will not receive a full Scheduled Award. This may occur if the student enrolls for only part of the year, attends part-time, or if the program is less than an academic year in length. These enrollment variations are taken into account in the calculation of the student's payment for the payment period. The four calculation formulas discussed

in this section account for these variations differently; therefore, we will describe the calculation for each formula separately.

Formula 1

For a program using Formula 1, a student will attend less than an academic year only if he or she enrolls part-time or does not enroll in all terms in the academic year. The adjustment for part-time enrollment is made in determining the annual award (by using the appropriate part-time Disbursement Schedules). The adjustment for a student not enrolling in all terms is made by dividing the annual award evenly between the terms. If the student does not enroll in a term, he or she will not receive that part of the award. Therefore, to determine the payment for a payment period, divide the annual award by the number of payment periods in the academic year (two for semesters or trimesters, three for quarters). However, if the school has a summer term, it may wish to use an alternate calculation that spreads the award over the summer term as well. See "Summer Terms" later in this section for more information.

$$\frac{\text{Annual award}}{\text{Number of payment periods in the program's definition of academic year}}$$

Formula 2

For a program using Formula 2, a student will attend less than an academic year in credit hours only if he or she enrolls part-time or does not enroll in all terms (fall through spring) in the academic year. As for Formula 1, the adjustment for part-time enrollment is made in determining the annual award (by looking up the award on the appropriate schedule). Because the fall through spring terms provide fewer than 30 weeks of instructional time, the school must always adjust for less than an academic year in weeks by prorating the annual award using the following formula:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in fall through spring terms}}$$

Then, to adjust for students not attending all terms, the award is divided evenly between terms. To determine the payment for one payment period, divide the *prorated* annual award by the number of terms in the year (two, for semesters or trimesters, three for quarters). If the school has a summer term, it may use the alternate calculation mentioned earlier to distribute the award over all terms. See "Summer Terms" later in this section.

The following example shows how to prorate the annual award under Formula 2:

Example

The school's academic calendar consists of two 14-week semesters. During the award year Alan is enrolled half-time for two 14-week semesters (fall and spring). The school defines the academic year for the program as 24 semester hours and 30 weeks of instructional time. His annual award (taken from the half-time Disbursement Schedule) is $825. Because the number of weeks of instructional time for Alan's period of enrollment is less than 30 weeks, his annual award must be prorated:

$$\$825 \times \frac{28 \text{ weeks}}{30 \text{ weeks}} = \$770$$

This prorated annual award can then be divided by two (the number of terms in the year) to determine the payment for one payment period: $385.

Formula 3

Under Formula 3, the school also adjusts for less than an academic year by using enrollment status in determining the annual award and by distributing the award over terms. Because the program uses nonstandard terms (which may not be of equal length), the award cannot simply be divided evenly among the terms. Instead, the school must multiply the annual award by a fraction representing the proportion of an academic year the payment period contains. This adjusts for the period of enrollment being less than an academic year either because the student misses a term or because the terms provide less than an academic year. To calculate a student's payment for a payment period, the school uses the following formula:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting amount is more than 50 percent of the annual award, the school must make the payment in at least two disbursements. A single disbursement may never be more than 50 percent of the annual award.

Formula 4

Unlike the preceding three formulas, no adjustment for enrollment status is made in determining the annual award under Formula 4. Instead, a comparable proration based on hours enrolled must be performed. The calculation for the payment period adjusts the annual award both if the student will be enrolled in fewer credit/clock hours than in a full academic year (an adjustment mainly handled by enrollment status in the other formulas) and if the student will be attending fewer weeks than a full academic year. To adjust for fewer weeks, the school must multiply the annual award by the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

Note that the result of this multiplication can never be greater than the original annual award. Because the annual award has not been adjusted for enrollment status, the fractions use the weeks of instructional time for a *full-time student* to complete the hours in the program or academic year. The school must determine the weeks of instructional time it takes a full-time student to complete the hours based on the timeframe required for the majority of its full-time students to complete the program or academic year, not student by student.

Then, to adjust for fewer clock/credit hours, the school must multiply this adjusted annual award by the following fraction:

$$\frac{\text{Credit/clock hours in a payment period}}{\text{Credit/clock hours in program's definition of academic year}}$$

The resulting amount is the payment for a payment period. However, if this amount is greater than 50 percent of the annual award (which will only occur in a term-based program), the school must make the payment in at least two disbursements. A single disbursement may never be more than

50 percent of the annual award. The following example illustrates how to calculate a payment under this formula.

Example

Drew is expected to complete a 720-clock-hour program over 24 weeks of instructional time as a full-time student. The school defines the program's academic year as 900 clock hours and 30 weeks of instructional time. Each of the payment periods for Drew's program is 360 clock hours. Drew's annual award is $1,850. The school calculates the expected disbursement for each term as follows.

First, the school must determine the lesser of the two numbers to be used in the formula (number of weeks in the program divided by number of weeks in the academic year, or 1). In this case, the number of weeks of instructional time for a full-time student to complete the hours in the program is less than the number of weeks in the academic year. Therefore, the lesser number is the fraction:

$$\frac{\textbf{24 weeks in the program}}{\textbf{30 weeks in an academic year}} = \frac{4}{5}$$

Drew's annual award is multiplied by this fraction:

$1,850 x 4/5 = $1,480

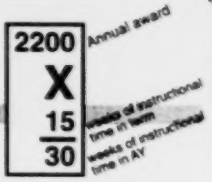
The school then multiplies this adjusted award by the second fraction (clock hours in payment period divided by clock hours in academic year):

$$\textbf{\$1,480} \times \frac{\textbf{360 clock hours}}{\textbf{900 clock hours}} = \textbf{\$592 payment for each payment period}$$

The total disbursements for the award year equal $1,184 ($592 times two payment periods).

Step 5 summary by formula

STEP 5: Calculate Payment for a Payment Period



Formula 1:

- For each payment period:

$$\frac{\text{Annual award}}{\text{Number of payment periods in the program's definition of academic year}}$$

Formula 2:

- Proration required
- For each payment period:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the fall through spring terms}}{\text{Weeks of instructional time in program's definition of academic year}} + \begin{matrix}\text{2 (if semesters or trimesters)} \\ \textbf{OR} \\ \text{3 (if quarters)}\end{matrix}$$

Formula 3:

- For each payment period:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

- A single disbursement may not exceed 50% of the annual award

Formula 4:

- For each payment period:

(1) Annual award x the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

- A single disbursement may not exceed 50% of the annual award

SUMMER TERMS

If a school offers a summer term in addition to the fall through spring terms, the school may choose to calculate the student's payment for the summer term by using the same formula used to calculate the payment for

each term within the school's fall, winter, or spring terms. However, for a program for which the school calculates awards using Formula 1 or 2, the school may perform an alternate calculation for all students enrolled in the program that distributes the annual award over all the terms.

Full-time status definition

Regardless of the method the school chooses to calculate the student's summer payment, regulations now require the aid administrator to apply the school's definition of full-time status consistently to all SFA programs. In addition, in order to calculate a student's Pell for the summer under Formula 1 or 2 or under the alternate calculation, the aid administrator must define full-time enrollment during the summer as at least 12 credit hours.

Alternate calculation

To perform the alternate calculation, the school divides the annual award by the number of terms (including the summer term) in the award year. If the school chooses this alternate calculation, the school must use the alternate calculation for *all students* enrolled in the same program of study, increase the number of weeks of instructional time in the academic year defined for the student's program to include the number of weeks in the summer term, and include the costs for the additional term in the Pell COA. The school may also include the number of credit hours for the additional term in the academic year defined for the student's program.

If the school does not choose to use the alternate calculation and calculates the payment for the summer term using Formula 1 or 2, the school must ensure that the amount of Pell funds the student receives for the award year does not exceed the Scheduled Award.

Summer mini-sessions

If a term-based school offers a series of mini-sessions that overlap two award years (by "crossing over" the June 30 end date for one award year), these mini-sessions *may* be combined and treated as one term. However, schools are no longer *required* to combine these mini-sessions. The weeks of instructional time in the combined term are the weeks between the beginning of the first mini-session and the date the last mini-session will end. The student's enrollment status for the entire payment period must be calculated based on either—

- the total number of credits the student is taking for all sessions, if that number is known when the award is calculated; or
- a projected number of credits based on the credits the student is taking for the first session, if the number of credits to be taken in subsequent sessions is unknown when the award is calculated.

If the school combines mini-sessions into a single term, a student may not be paid more than the amount for one payment period for completing any combination of the mini-sessions.

IMPORTANT: Note that recalculation is required if the student does not ultimately attend the projected classes in a subsequent mini-session. See "Change in Enrollment Status" in Section Five of this chapter.

If the school does not combine mini-sessions into a single payment period, it must treat each mini-session as a separate nonstandard term and calculate the payment for each using Formula 3.

CORRESPONDENCE STUDY

Students enrolled in correspondence courses are eligible for aid under SFA programs only if the courses are part of a program leading to an associate, bachelor's, or graduate degree.

An eligible correspondence program must meet the criteria for an eligible program (see Chapter Three of this handbook). A nonterm correspondence program must require at least 12 hours of preparation per week. A term correspondence program must require 30 hours of preparation per semester hour or 20 hours of preparation per quarter hour during the term. The school determines the length of the correspondence program by preparing a written schedule for the lessons that the student will submit. Students enrolled in programs of correspondence study are considered to be no more than half-time students, and thus are limited to no more than half a Scheduled Award. However, a correspondence student may receive more than half a Scheduled Award if the correspondence program includes a required period of residential training or is combined with class instruction.

Half-time limit

Formula 5 is used to calculate payments for a payment period for students enrolled only in a correspondence program (not including residential components). There are two versions of Formula 5; version A is used for nonterm programs, and version B is used for term-based programs. (For a residential component of a correspondence program, you must use either Formula 3 or Formula 4.) Formula 5 uses the same basic steps as the other formulas discussed in this section.

Formula 5

Step 1: Determine enrollment status

As stated above, students enrolled in programs of correspondence study are considered to be no more than half-time students. A student enrolled only in a nonterm correspondence program is always considered to be enrolled half time. For a student enrolled in a term correspondence program, you must determine whether the student is enrolled half time (6 or more credit hours in a term) or less than half time (less than 6 credit hours in a term). Special rules are used to determine the student's enrollment status when the student is enrolled in a combination of regular and correspondence coursework. See the chart on page 4-70.

Step 2: Calculate cost of attendance

The COA for correspondence study includes only tuition and fees. Room and board costs and allowances for books and supplies and travel may be included only if the student would incur them in fulfilling a required period of residential training. As always, the cost must be the full-time, full academic year cost. If the student's program or period of enrollment is longer or shorter than an academic year, the cost is prorated using the following formula:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours for which costs apply}}$$

Note that since there are no costs associated with weeks of instructional time in the correspondence COA, the school will have to prorate the cost only if the number of hours in the program is shorter or longer than in an academic year.

Step 3: Determine the annual award

The annual award for a student in a nonterm correspondence program is always taken from the half-time Disbursement Schedule, because a correspondence student may not receive more than half a Scheduled Award. For a student in a nonterm correspondence program, the annual award is determined from the half-time Disbursement Schedule or the less-than-half-time Disbursement Schedule, as appropriate.

Step 4: Determine the payment periods

Formula 5A

For a nonterm correspondence program, there must be at least two equal payment periods. The first payment period is the period in which the student completes the lesser of the first half of the academic year or the program (measured in credit hours). The second payment period is the period in which the student completes the lesser of the second half of the academic year or the program. In addition, the school may not disburse a Pell payment for the first payment period until the student has completed 25 percent of the work in the academic year or program, whichever is shorter. It may not make the second payment until the student has completed 75 percent of the work in the academic year or program.

Formula 5B

For a term correspondence program, as for other term-based programs, the payment period is the term. However, you may not disburse the Pell for a payment period until the student has completed 50 percent of the lessons or completes 50 percent of the work for the term, whichever is later.

If the correspondence program has a required period of residential training, you must treat the residential training as an additional payment period and determine the payment for that payment period using either Formula 3 or Formula 4. Note that the correspondence portion of the program is still treated as a separate portion of the program that is divided into two equal payment periods.

Residential training

Step 5: Calculate the payment for a payment period

For nonterm programs, this step is the same as under Formula 4. The school first multiplies the annual award (determined from the half-time Disbursement Schedule, in this case) by the lesser of

Formula 5A

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in the academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

The school then multiplies the result by the following fraction:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

For term programs, this step is the same as under Formula 3. The school multiplies the annual award by the following fraction:

Formula 5B

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

If the resulting amount is more than 50 percent of the annual award, the school must make the payment in at least two disbursements. A single disbursement may never be more than 50 percent of the annual award.

TERMS WITH CLOCK HOURS

The amount of a Pell for a student enrolled in clock-hour term programs is calculated under Formula 4, as discussed earlier in this section. However, there are specific rules for the treatment of payment periods in these programs.

The payment period for a term-based clock-hour program is the academic term. However, the student must complete all clock hours scheduled for that term before receiving any more Pell funds. If a student has not completed all clock hours scheduled for a term in which he or she has received a Pell payment, the payment period extends beyond that term for as long as it takes the student to complete the originally scheduled clock hours.

A payment period that extends into another term will change the pattern of payment periods for the student's program of study. Because subsequent Pell payments may not be made until the student has completed all clock hours for which he or she has received payment, the next payment period will consist of only those clock hours that were scheduled in that term, minus the clock hours completed in that term that belonged to the prior term. Thus, although the payment period will coincide with an academic term, it will be shorter. That is, the payment period will include fewer clock hours than originally scheduled. Those remaining clock hours, caused by the change in the payment period pattern, will shift to an additional payment period at the end of the student's program of study. The following example illustrates how to determine payment periods for term-based, clock-hour programs.

EXAMPLE:

Suppose a student enrolled in a three-term 900 clock-hour course and her expected payment periods looked like this:

	Term 1	Term 2	Term 3
payment periods	300 clock hours	300 clock hours	300 clock hours

However, suppose the student completes only 250 hours in the first term. Her payment periods must be recalculated so that the first payment period extends into the second term. She will then be paid on the following schedule—

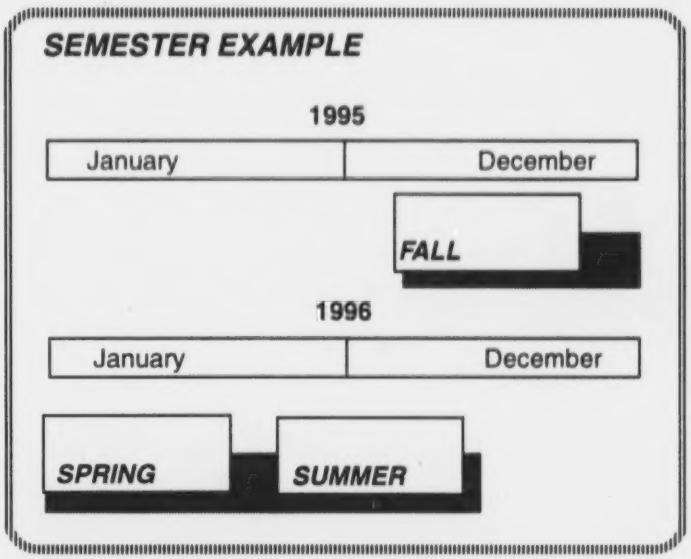
	Term 1	Term 2	Term 3	
payment periods	300 clock hours	250 clock hours	300 clock hours	50 c.h.

As you can see, because the first 300 hours were not completed until some time in the second term, the first payment period extended into the second term. The second payment period is thus shortened, resulting in a reduction to her award for the second term. A fourth payment period is added to pay for the hours remaining to be completed after the third quarter.

In addition, because the shorter payment period has fewer clock hours, the student's payment for that payment period will be less than for the regular payment periods.

CHECKING REMAINING ELIGIBILITY: CROSSOVER PAYMENT PERIODS

Payment periods do not always fall neatly into one award year or another. When a payment period falls into two award years, it is referred to as a "crossover payment period."



At a school with a traditional term calendar, the summer term is usually a crossover payment period.

The basic calculation for a crossover payment period is the same as that for any other payment period. However, there are additional provisions for some summer terms. See "Summer Terms" in this section.

Payment from either award year

The school may make a payment for a crossover payment period out of either award year, provided the student has a valid SAR or ISIR for the award year selected.[8] The decision of which award year to use is usually based on the student's remaining eligibility in the earlier award year. For instance, if a student had already been paid for two semesters (each at least 15 weeks) as a full-time student for a full academic year in the 1995-96 award year, the student would have been paid a full Scheduled Award for that year. However, if the student submits a valid SAR or ISIR for the 1996-97 award year, he or she could be paid for the crossover period from that year's funds. Of course, a student may still be eligible for a summer payment from the earlier award year if the student has not attended for a full academic year. An example would be a student who enrolls at midyear, in the spring session, and still has eligibility remaining for the summer term. As another example, a student could receive a Pell payment for the summer term, even after receiving payments for the other terms in the award year, if the student attended *part time* in those other terms, or if those terms provided less than 30 weeks of instructional time.

[8]There is one exception: If more than six months of the payment period occurs in a given award year, the Pell payment must be made from that award year.

Costs for crossover payment period

Costs for a crossover payment period are figured in the same way as for any other payment period—that is, the costs are based on a full academic year. For instance, if your school has fall and spring semesters that comprise an academic year, you must not add the costs for the summer term to the costs for the fall and spring semesters. The award for the summer term is still based on the costs for one academic year. However, if the academic year definition includes the summer term, then the costs for the summer term *must* be included in the cost for a full academic year.

If the student was previously enrolled in the award year, you may be able to use the same COA for the summer term that you used for the immediately preceding term the student attended. However, this is not possible if you are required to recalculate the COA. (Section Five of this chapter discusses the rules for recalculating awards—you must recalculate for cost changes if the student's enrollment status has changed, or if your school has established a policy of recalculating costs.) If it is necessary to base the student's COA on the summer term, you must prorate the summer costs to establish the cost for an academic year. See "Calculating the Cost of Attendance" in this section for information on prorating costs.

If the summer session is the first term in the award year for that student (for example, you are paying a student for the summer 1995 term from the 1995-96 award year), you must establish the student's full-year cost based on the costs for the **summer** term. If the student enrolls in another term in that award year, you may have to recalculate the student's costs for the later term (see Section Five.)

CHECKING REMAINING ELIGIBILITY: TRANSFER STUDENTS

SAR or ISIR and transcript needed

The school must be careful not to exceed the Scheduled Award when paying a student who has previously received a Pell for the award year at another school. To pay such a student, the school must obtain a SAR or ISIR and a financial aid transcript.

There are three ways to obtain the student's application information and official EFC if the student did not list your school on the FAFSA:

Duplicate SAR

1. Have the student request a duplicate of his or her original SAR and submit it to you. (If your school uses a FAFSA processor different from the one at the student's previous school and you want a SAR produced by your FAFSA processor, you could ask the student to write to your FAFSA processor to request a duplicate SAR.)

2. If your school participates in EDE, you can have the student give you his or her Personal Identification Number (PIN) that is printed on the upper right corner of all three parts of the SAR, so that you can obtain the student's data electronically.

PIN number

3. Have the student correct his or her SAR to add your school's name to the list of schools in items 90 through 101.

Correct SAR

Financial aid transcript

The student must make arrangements to have the other eligible school(s) that he or she attended send a financial aid transcript to your school. If the student has not already asked the other school(s) to send the transcript(s), you may request them on the student's behalf. The transcript requirement is discussed in more detail in Chapter Three of this handbook because providing the transcript is one of an school's general administrative responsibilities.

Calculating the payment

The Pell payment for a transfer student is calculated in the same way as for any new student. That is, you must divide the annual award (prorated if necessary) into payments for each payment period. However, before paying a transfer student, you must also make sure the student does not receive more than 100 percent of his or her Scheduled Award during the award year.

Figuring percentage of remaining eligibility

The information you need is on the financial aid transcript from the previous school. First, find the percentage of the Pell received at that school: Divide the amount the student received at the previous school by the student's Scheduled Award at that school. Then subtract this percentage from 100 percent. The result is the maximum percentage of the Scheduled Award that the student generally may receive at your school. (See the example on the next page.)

EXAMPLE:

A student attends fall and winter terms at a school using nonstandard terms. The student then transfers to a school using semesters for the spring semester. The financial aid transcript from the first school shows the student received $1,000 in Federal Pell Grant payments, and had a $1,700 Scheduled Award. The student is eligible for a $2,100 Scheduled Award at the new school. What is the maximum the student can be paid for the remainder of the award year at the new school?

$$\frac{\$1,000}{\$1,700} = 59\% \text{ of Scheduled Award used at first school}$$

The student is eligible for 41% of the Scheduled Award at the new school.

$$41\% \times \$2,100 = \$861$$

A student with a $2,100 Scheduled Award would ordinarily receive a $1,050 payment for one semester (if enrolled full-time). However, the transfer student in this example may not be paid more than $861, because the student has received 59% of the Scheduled Award at the first school.

The reason for using percentages is that a transfer student may have different Scheduled Awards because the costs of attendance at the two schools may be different. The percentages are a way of comparing the portions of a student's eligibility that have been used at both schools. (If the student's Scheduled Award is the same at both schools, you can find the amount of the student's remaining eligibility simply by subtracting the amount received at the first school from the Scheduled Award.)

Note that a transfer student receives the same payments as any other student until the limit (100 percent of a Scheduled Award) is reached. An example would be a transfer student who enrolls for two terms in the award year at your school and would ordinarily receive a $500 payment for each term. However, the student's remaining eligibility, based on payments at the other school, is only $600. Rather than "rationing" this amount by splitting it into two $300 payments for the two terms, you must

pay the student $500 for the first term, and the remainder ($100) for the second term. Thus, the student will have received a full payment for the first term, even if he or she does not return for the second term.

FORMULA SUMMARIES

On the following pages are summaries of the steps involved in calculating a Pell for each of the five formulas.

Formula 1

Formula 1: Standard-Term, Credit-Hour Programs

30 weeks of instructional time, or waiver applies

- *Enrollment for at least 12 credit hours each term required for full-time status*
- *Program terms do not overlap*
- *Academic calendar includes:*
  - 2 semesters/trimesters (fall and spring); or
  - 3 quarters (fall, winter, and spring)
- *Fall through spring terms equal at least 30 weeks of instructional time, or at least 26 weeks of instructional time if the program was granted a waiver of the minimum 30-week academic year requirement*

STEP 1: Determine Enrollment Status

- Full-time, 3/4-time, 1/2-time, or less than 1/2-time

STEP 2: Calculate Pell COA

- Full-time, full academic-year costs

STEP 3: Determine Annual Award

- If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

- Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

- For each payment period:

$$\frac{\text{Annual award}}{\text{Number of payment periods in the program's definition of academic year}}$$

Formula 2: Standard-Term, Credit-Hour Programs

Fewer than 30 weeks of instructional time and waiver does not apply

- *Enrollment for at least 12 credit hours each term required for full-time status*
- *Program terms do not overlap*
- *Academic calendar includes:*
  - *2 semesters/trimesters (fall and spring); or*
  - *3 quarters (fall, winter, and spring)*
- *Fall through spring terms are less than 30 weeks of instructional time and the program was not granted a waiver of the minimum 30-week academic year requirement*

STEP 1: Determine Enrollment Status

- Full-time, 3/4-time, 1/2-time, or less than 1/2-time

STEP 2: Calculate Pell COA

(1) Full-time, full-year costs for tuition, fees, books, supplies, loan fees

(2) Full-time, full-year costs for room, board, transportation, miscellaneous personal, dependent care, study abroad, disability-related, and employment-related cooperative education program expenses must be prorated upward to obtain costs for a full academic year according to the following formula:

$$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the fall through spring terms}}$$

- COA = (1) + (2)

STEP 3: Determine Annual Award

- If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

- Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

- Proration required
- For each payment period:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the fall through spring terms}}{\text{Weeks of instructional time in program's definition of academic year}} + \begin{matrix}\text{2 (if semesters or trimesters)} \\ \textbf{OR} \\ \text{3 (if quarters)}\end{matrix}$$

Formula 3: Any Term-Based, Credit-Hour Programs

May include those described by Formulas 1 and 2

STEP 1: Determine Enrollment Status

- Full-time, 3/4-time, 1/2-time, or less than 1/2-time

STEP 2: Calculate Pell COA

- Full-time, full academic year costs
- If a student's program of study or enrollment period is longer or shorter than an academic year, full-time costs are prorated upward (or downward) using the following formulas:

  (1) For tuition, fees, books, supplies, and loan fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

  (2) For room, board, transportation, miscellaneous personal, dependent care, study abroad, disability-related, and employment-related cooperative education program expenses:

$$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the terms to which the costs apply}}$$

- COA = (1) + (2)

STEP 3: Determine Annual Award

- If the student's enrollment status is full-time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less than 1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

STEP 4: Determine Payment Periods

- Payment period is the academic term

STEP 5: Calculate Payment for a Payment Period

- For each payment period:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

- A single disbursement may not exceed 50% of the annual award

Formula 4: Clock-Hour Programs and Credit-Hour Programs without Terms

STEP 1: Determine Enrollment Status

- At least 1/2-time or less than 1/2-time

STEP 2: Calculate Pell COA

- Full-time, full academic year costs
- If the student's program of study or enrollment period is longer or shorter than an academic year, full-time costs are prorated upward (or downward) using the following formulas:

  (1) For tuition, fees, books, supplies, and loan fees:

  $$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

  (2) For room, board, transportation, miscellaneous personal, dependent care, study abroad, disability-related, and employment-related cooperative education program expenses:

  $$\text{Costs} \times \frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

- COA = (1) + (2)

STEP 3: Determine Annual Award

- Always taken from full-time Payment Schedule (Scheduled Award)

STEP 4: Determine Payment Periods

For nonterm programs:

- Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each academic year for programs longer than or equal to an academic year
- Length of payment period measured in credit or clock hours

  (1) Program shorter than an academic year:
  - Payment period = time it takes a full-time student to complete 1/2 of the program in credit or clock hours

  (2) Program = an academic year:
  - Payment period = time it takes a full-time student to complete 1/2 of the academic year in credit or clock hours

  (3) Program longer than an academic year:
  - First and second payment periods same as (2) above
  - Subsequent full academic years same as (2) above
  - If the remaining portion of the program is shorter than an academic year, each payment period is either 1/2 the academic year or the time it takes a full-time student to complete the remaining hours in the program, whichever is completed first.

For term-based, clock-hour programs:

- Payment period is the academic term, but extends for as long as it takes the student to complete the clock hours for which payment has been made
- If the payment period extends into another term:
  - Subsequent payment period consists of only those hours not included in the previous term
  - Remaining clock hours are accounted for by an additional payment period at the end of the student's program of study

STEP 5: Calculate Payment for a Payment Period

- For each payment period:

(1) Annual award x the lesser of:

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in program}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

- A single disbursement may not exceed 50% of the annual award

Formula 5A: Programs of Study by Correspondence

Nonterm Correspondence Component

STEP 1: Determine Enrollment Status

- Enrollment status is never more than 1/2-time

STEP 2: Calculate Pell COA

- Full-time, full academic year costs (for applicable components)
- If the student's program of study or enrollment period is longer or shorter than the program's definition of an academic year, full-time costs are prorated upward (or downward) according to the following formula:

  For tuition and fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

STEP 3: Determine Annual Award

- Annual award taken from 1/2-time Disbursement Schedule

STEP 4: Determine Payment Periods

- First payment period is the period of time in which the student completes the lesser of the first 1/2 of the academic year or the first 1/2 of the program. (1st payment may be made only after the student has completed 25% of lessons or otherwise completed 25% of the work scheduled, whichever comes last.)
- Second payment period is the period of time in which the student completes the lesser of the second 1/2 of the academic year or the second 1/2 of the program. (2nd payment may be made only after the student has submitted 75% of lessons or otherwise completed 75% of the work scheduled, whichever comes last.)

STEP 5: Calculate Payment for a Payment Period

- For each payment period:

  (1) Annual award from 1/2-time Disbursement Schedule x the lesser of:

$$\frac{\text{Weeks of instructional time to complete the lesser of program or academic year}}{\text{Weeks of instructional time in program's definition of academic year}}$$

OR

One (1)

(2) The results of (1) are then multiplied by:

$$\frac{\text{Hours in a payment period}}{\text{Hours in program's definition of academic year}}$$

Formula 5B: Programs of Study by Correspondence

Term-based Correspondence Component

- *During each term, the written schedule for the submission of lessons must reflect a workload of at least:*
  - *30 hours of preparation per semester hour; or*
  - *20 hours of preparation per quarter hour*

STEP 1: Determine Enrollment Status

- Enrollment status may only be 1/2-time or less than 1/2-time

STEP 2: Calculate Pell COA

- Full-time, full academic year costs (for applicable components)
- If the student's program of study or enrollment period is longer or shorter than the program's definition of an academic year, full-time costs are prorated upward (or downward) according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Hours in program's definition of academic year}}{\text{Hours in student's program of study}}$$

STEP 3: Determine Annual Award

- Annual award taken from appropriate part-time Disbursement Schedule (1/2-time or less than 1/2-time)

STEP 4: Determine Payment Periods

- Payment period is the academic term. (Payment for the payment period may be made only after the student has completed 50% of lessons or otherwise completed 50% of the work scheduled for the term, whichever comes last.)

STEP 5: Calculate Payment for a Payment Period

- For each payment period:

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's definition of academic year}}$$

- A single disbursement may not exceed 50% of the annual award

Standard term, credit-hour program

30 weeks of instructional time

Formula 1

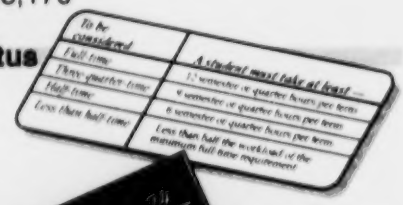
EXAMPLE 1—*Hart University*

BACKGROUND

Owen enrolls full time in Hart University. Hart University has fall and spring semesters, each of which provides 15 weeks of instructional time. Thus, the two semesters provide the 30 weeks of instructional time that are required for an academic year. The terms do not overlap. The school has defined the academic year for Owen's program as 24 semester hours and 30 weeks of instructional time. The school defines full-time attendance as 12 semester hours per term. Therefore, Hart University can use Formula 1 to calculate Pells for students in this program.

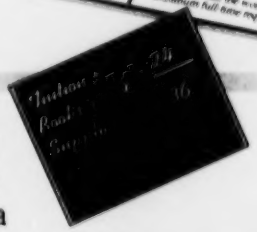
Owen attends two semesters of 12 semester hours each in the 1995-96 award year, and his EFC is 752. The average costs for a full-time student attending both semesters are as follows:

Tuition and Fees	$4,200
Books and Supplies	$600
Room and Board	$2,500
Transportation	$450
Miscellaneous Expenses	$300
Loan Fees	$120
TOTAL	$8,170



STEP 1: Determine Enrollment Status

Owen is attending full time (12 semester hours) in each term.



STEP 2: Calculate Pell COA

Because the two semesters provide a full 30 weeks of instructional time, the full-time, full-year COA is the cost for a full-time student to attend both semesters: $8,170.

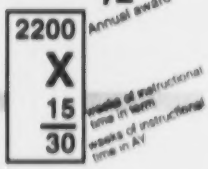
STEP 3: Determine Annual Award

Based on a COA of $8,170 and an EFC of 752, the full-time Payment Schedule shows that Owen is eligible for an annual award of $1,590.

STEP 4: Determine Payment Periods

Because this is a term program, the payment period is the term (the semester).

STEP 5: Calculate Payment for a Payment Period



The school divides the annual award by the number of terms:

$1,590/2=$795

Therefore, Owen's payment for each payment period is $795; he will receive the full annual award of $1,590 if he actually attends both semesters.

Recalculation for enrollment change

Suppose instead that Owen decides to attend only 4 semester hours in the second semester. The school must then recalculate his award. His enrollment status is less than half time. Because he is attending less than half time, his COA can only include tuition and fees, books and supplies, and transportation:

Tuition and Fees	$4,200
Books and Supplies	$600
Transportation	$450
TOTAL	$5,250

Note that the amount for each component in the COA is still the amount for a full-time student for a full year.

The school then looks up the new annual award on the less-than-half-time Disbursement Schedule. Based on a COA of $5,250 and an EFC of 752, Owen is eligible for an annual award of $400. The payment period is still the semester. To determine how much Owen can receive for the second semester, the school divides the annual award by the number of terms (2). Owen can now receive $200 for his second semester.

Standard term, credit-hour program

28 weeks of instructional time

Formula 2

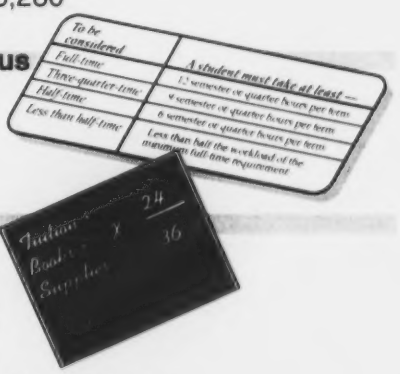
EXAMPLE 2—*Woodhouse College*

BACKGROUND

Emma enrolls full time in Woodhouse College. Woodhouse has fall and spring semesters, each of which provides 14 weeks of instructional time. Thus, the two semesters provide 28 weeks of instructional time, shorter than the statutory requirement for an academic year. The terms do not overlap. The school has defined the academic year for Emma's program as 24 semester hours and 30 weeks of instructional time. The school defines full-time attendance as 12 semester hours per term. Therefore, Woodhouse College can use Formula 2 to calculate Pells for students in Emma's program.

Emma attends two semesters of 12 semester hours each in the 1995-96 award year, and her EFC is 500. The average costs for a full-time student attending both semesters are as follows:

Tuition and Fees	$2,600
Books and Supplies	$430
Room and Board	$2,700
Transportation	$300
Miscellaneous Expenses	$150
Loan Fees	$100
TOTAL	$6,280



STEP 1: Determine Enrollment Status

Emma is attending full time (12 semester hours) in each term.

STEP 2: Calculate Pell COA

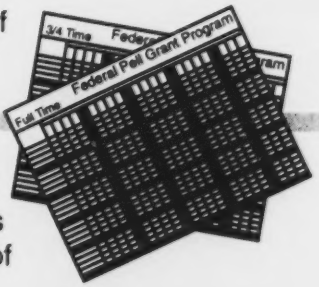
Because the two semesters do not provide a full 30 weeks of instructional time, the cost for a full-time student to attend both semesters must be prorated to determine a full academic year COA. Only the costs associated with weeks are prorated, because the number of credit hours meet the minimum requirement for an academic year:

Credit hour costs (not prorated)	
Tuition and Fees	$2,600
Books and Supplies	$430
Loan Fees	$100
TOTAL	$3,130

Week costs	
Room and Board	$2,700
Transportation	$300
Miscellaneous Expenses	$150
TOTAL	$3,150

$$\$3{,}150 \times \frac{\text{30 weeks instructional time in academic year definition}}{\text{28 weeks instructional time in fall through spring terms}} = \$3{,}375$$

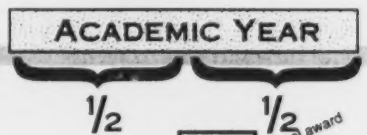
Emma's COA is the sum of the two types of costs: $3,130 + $3,375 = $6,505



STEP 3: Determine Annual Award

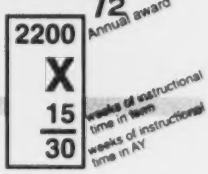
Based on a COA of $6,505 and an EFC of 500, the full-time Payment Schedule shows that Emma is eligible for an annual award of $1,890.

STEP 4: Determine Payment Periods



Because this is a term program, the payment period is the term (the semester).

STEP 5: Calculate Payment for a Payment Period



Because the two terms provide less than 30 weeks of instructional time, the annual award must be prorated:

$$\$1,890 \times \frac{\text{28 weeks instructional time in fall through spring terms}}{\text{30 weeks instructional time in academic year definition}} = \$1,764$$

This prorated amount is then divided by the number of terms:

$1,764/2=$882

Therefore, Emma's payment for each payment period is $882; she will receive $1,764 for her attendance in both semesters. Note that this is less than her annual award; she may be able to receive the remaining $126 if she enrolls in a summer term.

Summer term

Woodhouse College offers a summer term, which provides 12 weeks of instructional time. Because Woodhouse defines full-time enrollment in this term as 12 semester hours, it can still calculate Pells using Formula 2. Suppose Emma enrolls half time (6 semester hours) in this term. Woodhouse could use the same COA as for the fall and spring semesters. Emma's annual award for the summer term from the half-time Disbursement Schedule would be $945. Woodhouse would calculate the summer payment as follows:

$$\$945 \times \frac{\text{28 weeks instructional time in fall through spring terms}}{\text{30 weeks instructional time in academic year definition}} = \$882$$

$882/2=$441

Emma's payment for the summer term should be $441; however, she may only receive $126 because otherwise she would receive more than a Scheduled Award in the award year. Note that Woodhouse could also decide to pay Emma for the summer term from the following award year.

Nonstandard term, credit-hour program

32 weeks of instructional time

Formula 3

EXAMPLE 3—*Van Dam Conservatory*

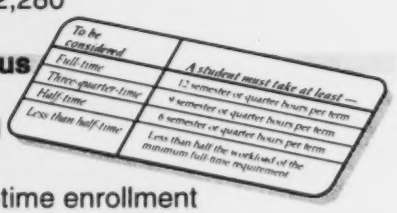
BACKGROUND

José enrolls in a two year program at Van Dam Conservatory. Van Dam Conservatory's academic calendar consists of four terms, each of which provides 8 weeks of instructional time. The school has defined the academic year for José's program as 40 quarter hours and 32 weeks of instructional time. Because the program José is enrolled in does not use standard terms (semesters, trimesters, or quarters), the school must use Formula 3 to calculate Pells for students in the program.

José attends four terms of 10 quarter hours each in the 1995-96 award year, and his EFC is 323. The school charges the student for the tuition for the entire program when the student begins. The average cost for a full-time student for the entire program is:

Tuition and Fees	$8,900
Books and Supplies	$1,800
Room and Board	$8,600
Transportation	$1,040
Miscellaneous Expenses	$1,700
Loan Fees	$240
TOTAL	$22,280

STEP 1: Determine Enrollment Status

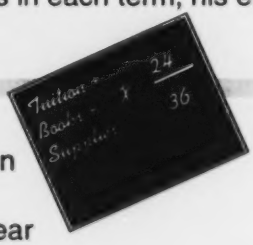

To be considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the minimum full-time requirement

Because the program has nonstandard terms, Van Dam must determine the number of credit hours required for full-time enrollment in the term as follows:

$$40 \text{ quarter hours} \times \frac{8 \text{ weeks instructional time in term}}{32 \text{ weeks instructional time in academic year}} = 10 \text{ quarter hours}$$

Because José is enrolled for ten hours in each term, his enrollment status is full time.

STEP 2: Calculate Pell COA



Because the program is longer than an academic year, the school must determine the cost for an academic year by prorating the full program cost:

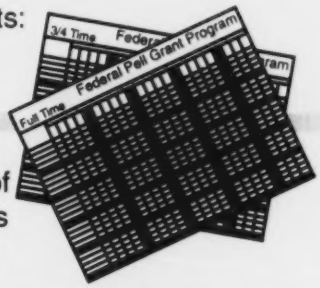
Credit hour costs	
Tuition and Fees	$8,900
Books and Supplies	$1,800
Loan Fees	$240
TOTAL	$10,940

Week costs	
Room and Board	$8,600
Transportation	$1,040
Miscellaneous Expenses	$1,700
TOTAL	$11,340

Credit hour costs $10,940 X $\frac{\text{40 quarter hours in academic year}}{\text{80 quarter hours for program}}$ = $5,470

Week costs $11,340 X $\frac{\text{32 weeks instructional time in academic year}}{\text{64 weeks instructional time in program}}$ = $5,670

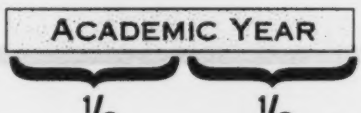
José's COA is the sum of the prorated costs: $5,470 + $5,670 = $11,140.



STEP 3: Determine Annual Award

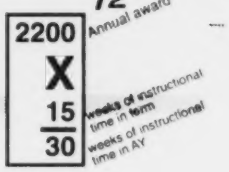
Based on a COA of $11,140 and an EFC of 323, the full-time Payment Schedule shows that José is eligible for an annual award of $1,990.

STEP 4: Determine Payment Periods



Because this is a term program, the payment period is the term.

STEP 5: Calculate Payment for a Payment Period



To determine José's payment for a payment period, the school uses the following calculation:

$1,990 X $\frac{\text{8 weeks instructional time in the term}}{\text{32 weeks instructional time in the academic year}}$ = $497.50

José's payment for the first and third payment periods will be $498 (rounded up from $497.50); his payment for the second and final payment periods must be reduced to $497 so that he is not overpaid.

Nonstandard term, credit-hour program

34 weeks of instructional time

Formula 3

EXAMPLE 4—*Hart University*

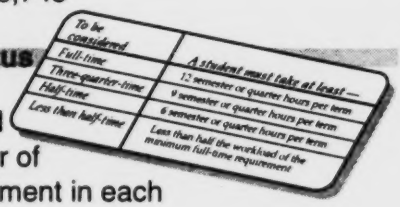
BACKGROUND

In addition to programs using standard semesters, Hart University offers an separate degree program in education with a short 4-week term between two 15-week terms. Helen enrolls in this program part-time. The terms do not overlap. The school has defined the academic year for Helen's program as 24 semester hours and 34 weeks of instructional time. Hart could combine the short term with one of the standard terms and calculate Pells using Formula 1 (assuming that it defined full-time enrollment as 12 semester hours per term); however, it chooses not to combine the terms and instead calculates Pells using Formula 3.

Helen attends three terms in the 1995-96 award year; she enrolls for six hours in the first and third terms and three hours in the second term. Her EFC is 1214. The average costs for a full-time student attending a full year are as follows:

Tuition and Fees	$4,725
Books and Supplies	$650
Room and Board	$2,500
Transportation	$450
Miscellaneous Expenses	$300
Loan Fees	$120
TOTAL	$8,745

STEP 1: Determine Enrollment Status


To be considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the minimum full-time requirement

Because the program has nonstandard terms, Hart must determine the number of credit hours required for full-time enrollment in each term as follows:

1st and 3rd terms

$$24 \text{ semester hours} \times \frac{15 \text{ weeks instructional time in term}}{34 \text{ weeks instructional time in academic year}} = 10.58$$

2nd term

$$24 \text{ semester hours} \times \frac{4 \text{ weeks instructional time in term}}{34 \text{ weeks instructional time in academic year}} = 2.82$$

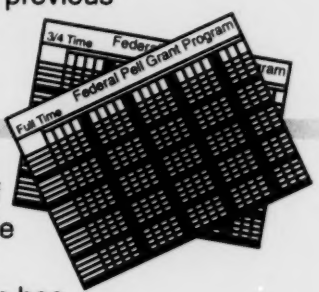
A student must enroll in 11 semester hours (rounded up from 10.58) in the first and third terms and 3 semester hours (rounded up from 2.82) in the second term to be full-time. Note that Helen is enrolled full-time in the second term. To determine Helen's enrollment status for the other two terms, the school must compare the number of hours she is enrolled with the number required for full-time enrollment:

$$\frac{6 \text{ semester hours}}{11 \text{ semester hours}} = .54$$

Because .54 is less than three-quarters (.75) and greater than one-half (.5), Helen is enrolled half-time in the first and third terms.

STEP 2: Calculate Pell COA

The fall through spring terms provide the same number of weeks of instruction as in an academic year, and the school has determined costs for a full-time student for a full academic year. Therefore, the costs provided on the previous page do not need to be prorated. Helen's COA is $8,745.



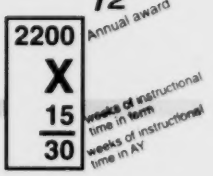
STEP 3: Determine Annual Award

Based on a COA of $8,745 and an EFC of 1214, the half-time Disbursement Schedule shows that Helen is eligible for an annual award of $545. For the second term, Helen has an annual award of $1,090 (from the full-time Payment Schedule). Note that her annual award for the second term is the same as her Scheduled Award.

STEP 4: Determine Payment Periods

Because this is a term program, the payment period is the term.

STEP 5: Calculate Payment for a Payment Period



To determine Helen's payment for the first payment period, the school uses the following calculation:

$$\$545 \times \frac{\text{15 weeks instructional time in the term}}{\text{34 weeks instructional time in the academic year}} = \$240.44$$

Helen's payment for the first payment period will be $240 (rounded down from $240.44). To determine her payment for the second payment period, the school uses this calculation:

$$\$1{,}090 \times \frac{\text{4 weeks instructional time in the term}}{\text{34 weeks instructional time in the academic year}} = \$128.23$$

Helen's payment for the second payment period will be $128 (rounded down from $128.23). Helen's payment for the third term will be $241 (rounded up because the first two were rounded down). She will receive $609 for the entire year. Note that this is less than her Scheduled Award, but more than the annual award based on half-time enrollment.

Nonterm, credit-hour program

20 weeks of instructional time

Formula 4

EXAMPLE 5—*Waltman Technical Institute*

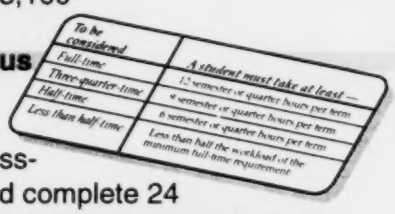
BACKGROUND

Sean enrolls in a 24-quarter hour program at Waltman Technical Institute. The program is less than an academic year; it can be completed in 20 weeks of instructional time. Waltman does not use terms; therefore, it must use Formula 4 to calculate students' Pells. The school has defined the academic year for Sean's program as 36 quarter hours and 30 weeks of instructional time; it defines full-time enrollment as 36 quarter hours in an academic year.

Sean enrolls for 24 quarter hours in 20 weeks of instructional time; his EFC is 137. The average costs for the program are as follows:

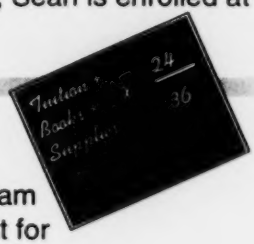
Tuition and Fees	$1,700
Books and Supplies	$100
Room and Board	$1,000
Transportation	$100
Miscellaneous Expenses	$200
TOTAL	$3,100

STEP 1: Determine Enrollment Status


To be considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half time
Less than half the workload of the minimum half-time requirement

Waltman must determine whether Sean is enrolled at least half-time or less-than-half-time. A full-time student would complete 24 quarter hours in 20 weeks of instructional time (prorated from 36 quarter hours in 30 weeks). Therefore, Sean is enrolled at least half-time.

STEP 2: Calculate Pell COA



Because the program is less than an academic year, the costs for the program must be prorated to determine the cost for a full academic year:

Credit hour costs	
Tuition and Fees	$1,700
Books and Supplies	$100
TOTAL	$1,800

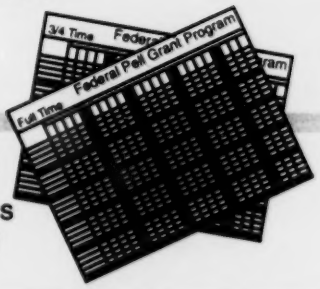
Week costs	
Room and Board	$1,000
Transportation	$100
Miscellaneous Expenses	$200
TOTAL	$1,300

Credit hour costs $1,800 **X** $\frac{\text{36 quarter hours in academic year}}{\text{24 quarter hours for program}}$ = $2,700

Week costs $1,300 **X** $\frac{\text{30 weeks instructional time in academic year}}{\text{20 weeks instructional time in program}}$ = $1,950

Sean's COA is the sum of these prorated costs:

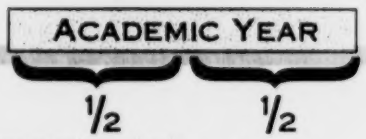
$2,700 + $1,950 = $4,650



STEP 3: Determine Annual Award

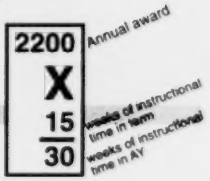
Based on a COA of $4,650 and an EFC of 137, the full-time Payment Schedule shows that Sean is eligible for an annual award of $2,190.

STEP 4: Determine Payment Periods



Sean's program is a nonterm program; therefore, Waltman must establish the payment periods. Because the program is shorter than an academic year, it must have at least two equal payment periods. The school chooses to have two payment periods. Each payment period is the period of time in which the student completes 12 quarter hours (half the hours in the program).

STEP 5: Calculate Payment for a Payment Period



To calculate Sean's payment, the school uses the following calculations:

$$\$2{,}190 \times \frac{\text{20 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$1{,}460$$

$$\$1{,}460 \times \frac{\text{12 quarter hours in payment period}}{\text{36 quarter hours in the academic year}} = \$486.66$$

Sean's payment for the first payment period will be $487 (rounded up from $486.66). Sean may receive this payment when he begins the program. Sean's payment for the second payment period will be $486 (rounded down, because the first payment was rounded up). Sean may receive this payment after he completes the 12 quarter hours in the first payment period.

Term, clock-hour program

45 weeks of instructional time

Formula 4

EXAMPLE 6—*Ivers Community College*

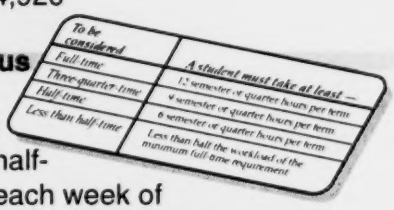
BACKGROUND

Eileen enrolls in a 1350 clock hour program at Ivers Community College. The program is offered in three terms, each of which is 15 weeks of instructional time. Because this is a clock-hour program, Ivers must use Formula 4 to calculate Pells for students in the program. The school has defined the academic year for Eileen's program as 900 clock hours and 30 weeks of instructional time; it defines full-time enrollment as 30 clock hours per week.

Eileen enrolls for 450 clock hours in each term in the 1995-96 award year; her EFC is 251. The average costs for the entire program are as follows:

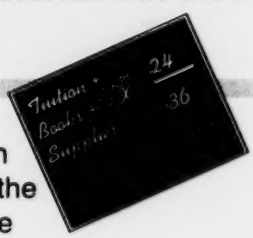
Tuition and Fees	$700
Books and Supplies	$50
Room and Board	$3,750
Transportation	$250
Miscellaneous Expenses	$170
TOTAL	$4,920

STEP 1: Determine Enrollment Status


To be Considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half time
Less than half the workload of the minimum full-time requirement

Ivers must determine whether Eileen is enrolled at least half-time or less-than-half-time. Eileen is enrolled for 30 hours in each week of the term; therefore, she is enrolled at least half-time under the school's definition.

STEP 2: Calculate Pell COA



Because the program is longer than an academic year in length, the costs for the program must be prorated to determine the costs for an academic year.

Credit hour costs	
Tuition and Fees	$700
Books and Supplies	$50
TOTAL	$750

Week costs	
Room and Board	$3,750
Transportation	$250
Miscellaneous Expenses	$170
TOTAL	$4,170

Credit hour costs $750 **X** $\frac{\text{900 clock hours in academic year}}{\text{1350 clock hours for program}}$ = $500

Week costs $4,170 **X** $\frac{\text{30 weeks instructional time in academic year}}{\text{45 weeks instructional time in program}}$ = $2,780

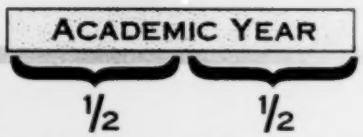
Eileen's COA is the sum of these prorated costs:

$500 + $2,780 = $3,280

STEP 3: Determine Annual Award

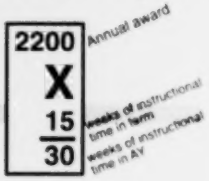
Based on a COA of $3,280 and an EFC of 251, the full-time Payment Schedule shows that Eileen is eligible for an annual award of $2,090.

STEP 4: Determine Payment Periods



Because the program uses terms, the payment period is the term. However, note that Eileen must complete all the clock hours scheduled for the first term (450) before receiving her second payment.

STEP 5: Calculate Payment for a Payment Period



To calculate Eileen's payment, the school uses the following calculations:

$$\$2{,}090 \times \frac{\text{30 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$2{,}090$$

$$\$2{,}090 \times \frac{\text{450 clock hours in payment period}}{\text{900 clock hours in the academic year}} = \$1{,}045$$

Eileen's payment for the first payment period will be $1,045. She may receive this payment when she begins the program. Her payment for the second payment period will also be $1,045; she may receive this payment after she completes the 450 clock hours in the first payment period.

Clock hours not completed within term

Suppose that Eileen completes only 400 clock hours in the 1st term. She will not receive her second payment until she completes the remaining 50 hours from the first term in the second term. In addition, the second payment period will be only 400 clock hours. Ivers calculates the payment for this second payment period as follows:

$$\$2{,}090 \times \frac{\text{30 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$2{,}090$$

$$\$2{,}090 \times \frac{\text{400 clock hours in payment period}}{\text{900 clock hours in the academic year}} = \$928.88$$

Her payment for this period will be $929. In the next award year, she will have a payment period of 450 hours, as originally scheduled, followed by a payment period of 50 hours to complete the hours missing from the second term.

Nonterm, clock-hour program

28 weeks of instructional time

Formula 4

EXAMPLE 7—*Waltman Technical Institute*

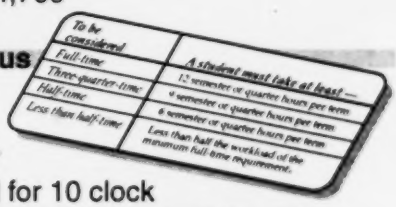
BACKGROUND

Miranda enrolls in a 650 clock hour program at Waltman Technical Institute. The program is less than an academic year; it provides 28 weeks of instructional time. Because Waltman does not use terms, it must use Formula 4 to calculate Pells for students in Miranda's program. The school has defined the academic year for the program as 900 clock hours and 30 weeks of instructional time; it defines full-time enrollment as 24 clock hours per week.

Miranda enrolls for 10 clock hours per week; her EFC is 0. The average costs for the entire program are as follows:

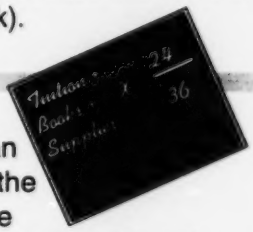
Tuition and Fees	$1,800
Books and Supplies	$100
Room and Board	$2,500
Transportation	$100
Miscellaneous Expenses	$200
TOTAL	$4,700

STEP 1: Determine Enrollment Status


To be considered
A student must take at least—
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the maximum full-time requirement.

Waltman must determine whether Miranda is enrolled at least half-time or less-than-half-time. Miranda is enrolled for 10 clock hours per week; therefore, she is enrolled less than half-time (half-time would be 12 clock hours per week).

STEP 2: Calculate Pell COA



Because the program is shorter than an academic year in length, the costs for the program must be prorated to determine the costs for an academic year. Also, because Miranda is attending less than half time, the COA can't include all components:

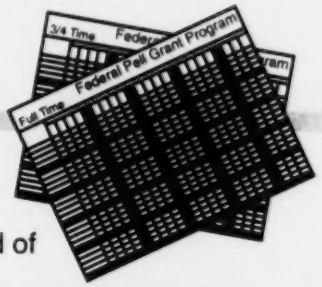
Credit hour costs		**Week costs**	
Tuition and Fees	$1,800	Transportation	$100
Books and Supplies	$100		
TOTAL	$1,900		

Credit hour costs $1,900 **X** $\frac{\text{900 clock hours in academic year}}{\text{650 clock hours for program}}$ = $2,631

Week costs $100 **X** $\frac{\text{30 weeks instructional time in academic year}}{\text{28 weeks instructional time in program}}$ = $107

Miranda's COA is the sum of these prorated costs:

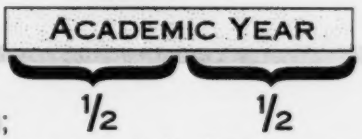
$2,631 + $107 = $2,738



STEP 3: Determine Annual Award

Based on a COA of $2,738 and an EFC of 0, the full-time Payment Schedule shows that Miranda is eligible for an annual award of $2,340.

STEP 4: Determine Payment Periods



Miranda's program is a nonterm program; therefore, Waltman must establish the payment periods. Because the program is shorter than an academic year, it must have at least two equal payment periods. The school chooses to have two payment periods. Each payment period is the period of time in which the student completes 325 clock hours (half the hours in the program).

STEP 5: Calculate Payment for a Payment Period

$$\frac{2200}{X}\ \frac{15}{30}$$

2200 — Annual award

15 — weeks of instructional time in term

30 — weeks of instructional time in AY

To calculate Miranda's payment, the school uses the following calculations:

$$\$2{,}340 \times \frac{\text{27 weeks instructional time for program}}{\text{30 weeks instructional time in the academic year}} = \$2{,}106$$

$$\$2{,}106 \times \frac{\text{325 clock hours in payment period}}{\text{900 clock hours in the academic year}} = \$760.50$$

Miranda's payment for the first payment period will be $761 (rounded up from $760.50). She may receive this payment when she begins the program. Her payment for the second payment period will also be $760 (rounded down because the first payment was rounded up); she may receive this payment after she completes the 325 clock hours in the first payment period. Because she is enrolled for only 10 clock hours a week, she will not receive her second payment until she has completed more than 32 weeks.

Term, credit-hour program

36 weeks of instructional time

Summer term alternate calculation

EXAMPLE 8—*Ivers Community College*

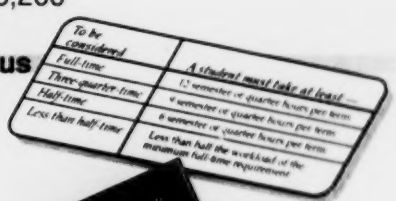
BACKGROUND

Kevin enrolls in a two year associate degree program at Ivers Community College. The academic calendar for this program uses quarters. There are three quarters in the fall through spring terms; each provides 9 weeks of instructional time. The terms do not overlap. Ivers defines full-time enrollment as 12 quarter hours per term. Ivers could use Formula 2 to calculate Pells for students in the program. However, the program also has a summer quarter which provides 9 weeks of instructional time. Ivers decides to use the alternate calculation for this program. Ivers must use this calculation for all students in the program, even if they do not attend the summer quarter. The definition of academic year must include the weeks of the summer term; in addition, Ivers may, if it chooses, include credit hours for the summer term in the academic year definition. The school defines academic year for Kevin's program as 48 quarter hours and 36 weeks of instructional time.

Kevin enrolls for 6 quarter hours in each of the four quarters in the 1995-96 award year; his EFC is 300. The average costs for a full-time student for a full academic year (including the summer quarter) are as follows:

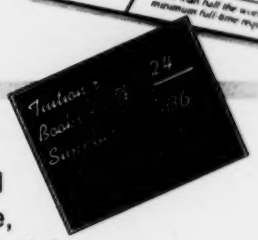
Tuition and Fees	$1,920
Books and Supplies	$200
Room and Board	$2,500
Transportation	$240
Miscellaneous Expenses	$240
Loan Fees	$100
TOTAL	$5,200

STEP 1: Determine Enrollment Status



Kevin is attending half time (6 quarter hours) in each term.

STEP 2: Calculate Pell COA



Because the four terms provide the same number of weeks of instructional time as an academic year, the full-time, full year cost above is the Pell COA. Kevin's COA is $5,200. Note that if the school had determined average costs based only on the fall through spring terms it would have to add summer costs to those costs to determine the COA.

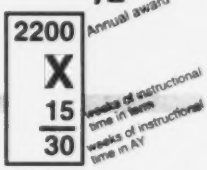
STEP 3: Determine Annual Award

Based on a COA of $5,200 and an EFC of 300, the half-time Disbursement Schedule shows that Kevin is eligible for an annual award of $1,045.

STEP 4: Determine Payment Periods

Because the program uses terms, the payment period is the term.

STEP 5: Calculate Payment for a Payment Period



The school uses the alternate calculation to determine Kevin's payment for a payment period. It divides the annual award by the number of terms in the award year:

$$\frac{\$1,045}{4} = \$262.25$$

Kevin will receive $262 (rounded down from $262.25) in the fall and spring quarters; he will receive $263 (rounded up because other payments are rounded down) in the winter and summer quarters.

Formula 2

If the school did not use the alternate calculation, and calculated payments using Formula 2, it would have to adjust the COA, although this would not affect Kevin's annual award. Using the same annual award, the school would calculate Kevin's payment using the following calculation:

$$\$1,045 \times \frac{\text{27 weeks instructional time in fall through spring terms}}{\text{30 weeks instructional time in academic year definition}} = \$940.50$$

Ivers would then divide this prorated annual award by 3 (because the program uses quarters) to determine Kevin's payment for the payment period:

$940.50/3=$313.50

Kevin would receive $314 for the fall and winter quarters (rounded up) and $313 for the spring quarter (rounded down because the first two were rounded up). If he attended the summer quarter, he would receive an additional $313 payment.

Term, credit-hour program

30 weeks of instructional time

Summer mini-sessions

EXAMPLE 9—*Hart University*

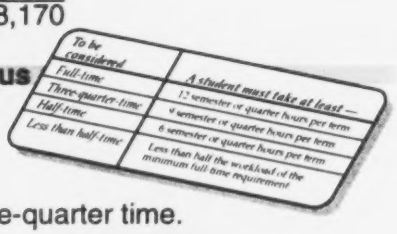
BACKGROUND

Bruce enrolls part time at Hart University. In addition to fall and spring semesters, Hart University offers three summer mini-sessions. Each mini-session provides 5 weeks of instructional time. Hart can either combine the mini-sessions into a single payment period, or treat each session as a separate nonstandard term. Hart has combined the sessions into a single payment period providing 15 weeks of instructional time. Full-time enrollment in this period is defined as 12 semester hours. Hart can use Formula 1 to calculate payments for this summer session.

Bruce enrolls for 3 semester hours in each of the three mini-sessions; her EFC is 772. The average costs for a full-time student for the fall through spring terms are as follows:

Tuition and Fees	$4,200
Books and Supplies	$600
Room and Board	$2,500
Transportation	$450
Miscellaneous Expenses	$300
Loan Fees	$120
TOTAL	$8,170

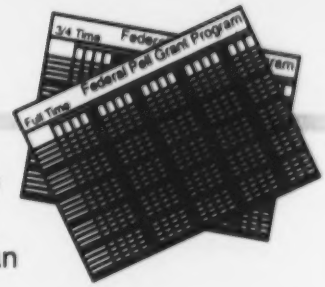
STEP 1: Determine Enrollment Status


To be considered
A student must take at least —
Full-time
12 semester or quarter hours per term
Three-quarter-time
9 semester or quarter hours per term
Half-time
6 semester or quarter hours per term
Less than half-time
Less than half the workload of the minimum full-time requirement

Bruce is enrolled for 9 semester hours in the combined term (3 in each mini-session). Therefore, he is enrolled three-quarter time.

STEP 2: Calculate Pell COA

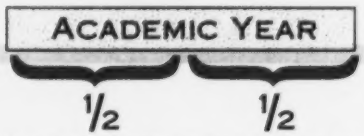
Because the fall through spring terms provide the same number of weeks of instructional time as an academic year, the cost given above for a full-time student is used for the Pell COA: $8,170.



STEP 3: Determine Annual Award

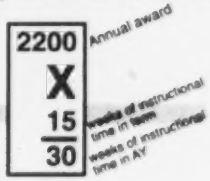
Based on a COA of $8,170 and an EFC of 772, the three-quarter-time Disbursement Schedule shows that Bruce is eligible for an annual award of $1,193.

STEP 4: Determine Payment Periods



Because the program uses terms, the payment period is the term. In this case, the payment period is the term created by combining the mini-sessions.

STEP 5: Calculate Payment for a Payment Period



To calculate Bruce's payment, the school divides the annual award by the number of terms in the academic year:

$1,193/2 = $596.50

Bruce may receive $597 for the combined summer session. However, suppose Bruce had also enrolled three-quarter time in the fall and spring semesters. He would have received a total of $1,193 for these two terms. If this amount is subtracted from his Scheduled Award ($1,590), only $397 remains. Therefore, if Bruce had enrolled in both semesters, he would only receive $397 for the combined mini-session.

Formula 3

If Hart University did not combine the three mini-sessions, it would have to calculate Bruce's payments using Formula 3. Hart would have to determine Bruce's enrollment status by multiplying full-time enrollment for the academic year (24 semester hours) by the number of weeks of instructional time in the term (5) over the number of weeks in the year. For the 5 week terms, a full-time student must enroll in 4 semester hours to be full-time; therefore, Bruce is still enrolled three-quarter-time. The COA would not have to be adjusted, and his annual award would remain the same. Hart would determine his payment using the following calculation:

$$\$1{,}193 \times \frac{\text{5 weeks instructional time in the term}}{\text{30 weeks instructional time in the academic year}} = \$198.83$$

Bruce would receive $199 for the first two mini-sessions, and $198 for the third mini-session, for a total of $596 for the summer.

TWO MATHEMATICAL NOTES

1 When making disbursements, you must round to the nearest dollar: Round up if the decimal is .50 or higher; round down if it is less than .50. For instance, if a calculation resulted in a payment of $516.66, round up to $517. If the calculation result was $516.33, round down to $516.

For a student who is expected to be enrolled for more than one payment period in the award year, you must alternate rounding up and rounding down to ensure that the student receives the correct amount for the year. For example, if a student had a Scheduled Award of $1,025 to be paid in two payment periods, the first payment would be $513 (rounded up from $512.50), and the second payment would be $512 (rounded down to ensure that the student is not overpaid for the year).

The same principle applies when there are three or more payment periods in the award year. For instance, if the student has a Scheduled Award of $1,100 and enrolls at a school using quarter terms, the payment for each term would come to $366.66. The first two payments would be rounded up to $367, and the last payment would be rounded down to $366 to reach the total of $1,100.

2 When using fractions, you must be careful to multiply first, and then divide, or you may create an overpayment. For example, if you are calculating the payment in a program that has three payment periods of 300 hours each, you should use the method in this example:

$$\underset{\text{(Scheduled Award)}}{\$2{,}130} \times \frac{300 \text{ (hours in payment period)}}{900 \text{ (hours in academic year)}}$$

Step 1: $2,130 X 300 = 639,000

Step 2: 639,000 ÷ 900 = $710

(In ***this*** case, you can simplify this calculation by reducing the fraction 300/900 to 1/3 and get the same result. But, if you divide the fraction to get a decimal [300/900 = .333333...] and then round the decimal either down [.33] or up [.34], your calculation will produce either an underpayment [$703] or an overpayment [$724].)

SECTION THREE: SPECIAL PROGRAM CONSIDERATIONS

In the preceding section, we have described Pell calculations that apply to most postsecondary educational programs. However, your school may have categories of students or educational programs that require "special handling." You should review the topics in this section to see if any of the programs at your school are affected.

CONSORTIUM AGREEMENTS (BETWEEN ELIGIBLE SCHOOLS)[9]

The Federal Pell Grant Program regulations prohibit a student from receiving a Pell from more than one school at the same time. However, it is possible for a school to pay a student enrolled in one of its eligible programs for courses taken at other eligible schools, if those courses apply to the degree or certificate in the first school's program. To pay such a student, the school must first have a written consortium agreement with the other school(s) the student is attending.

Purpose of the agreement

A consortium agreement establishes that the "home" institution considers the student to be enrolled in an eligible program and unconditionally accepts the credits earned at the "host" institution for credit towards the degree in that program. The agreement should further specify which school will be responsible for disbursing aid and monitoring student eligibility. (Usually, the home institution is responsible for disbursements, but if the student is enrolled for a full term or academic year at the host institution, it may be easier for the host institution to monitor the student's eligibility and make payments.)

Elements of a consortium agreement

Other factors that may need to be addressed in the agreement are the applicable refund policy, satisfactory progress policy, and any special procedures for calculating the total COA and enrollment status for the student.

[9]If the written agreement is with an *ineligible* school, please refer to the discussion of "contractual agreements" in Chapter Three, Section Six of this handbook. A school may not enter a contractual agreement with a school that has *lost* its eligibility. In a contractual agreement with an ineligible school, the student must be enrolled for the entire program at the eligible school, even though a portion of the program is provided by contract with the ineligible school. Thus, the student's enrollment status and COA are based on the hours taken at, and the costs in, the eligible program.

The consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific case involving a specific student. Such an agreement is often used when the student takes related courses at neighboring schools, or when the student is in an exchange program with another eligible school for a term or more. The written agreement ensures that the student will receive payment from only one school in a given payment period. (For more information on consortium agreements, see Chapter Three, Section Six.)

Cost of attendance

The COA is calculated in the same way as for a student taking classes at only one school. The student's tuition, fee, books, and supplies charges at the consortium schools have to be combined into a single charge for a full academic year for purposes of the Pell calculation. If the student is carrying a full-time course load (based on hours taken at both or all schools), the student's tuition, fee, books, and supplies costs would be based on actual or average charges, depending on whether the disbursing school uses actual or average charges for its Pell awards.

Prorating average charges at each school

Actual charges for a full-time student would simply be the sum of the actual charges at the schools the student is attending under the consortium arrangement. If the disbursing school uses *average charges,* then the average charges at each of the schools must be prorated and combined. If the student is taking an equal course load at each school, the full-time tuition and fee charges for an academic year at each school can be averaged to determine the tuition and fee cost. However, if the student is taking an unequal course load, you must prorate the charges based on the number of hours the student is taking at each school.

Average charges should also be prorated in this way to find the average full-time charge for a part-time student.

EXAMPLE:

A student is enrolled for 3 credit hours at School A and for 9 credit hours at School B. The full-time tuition and fee charge for an academic year at School A is $3,000, while the full-time charge at School B is $4,000. What is this student's average tuition and fee charge for an academic year?

Prorated charge at School A: $\$3{,}000 \times \frac{3}{12^*} = \$750$

Prorated charge at School B: $\$4{,}000 \times \frac{9}{12} = \$3{,}000$

Add the prorated charges at both schools: $\$750 + \$3{,}000 = \$3{,}750$

* Note that the denominator must be the total number of hours the student is taking at both schools.

Combined enrollment status

The enrollment status of a student attending more than one school is based on all the courses taken at the consortium schools that apply to the degree or certificate at the "home" institution. You may have to make some adjustments if the coursework at the different schools is measured in different units. (See the examples on the next page.)

Finding semester/ quarter-hour equivalents

EXAMPLE 1:

A student is taking 6 semester hours at School A, the "home institution," and 9 quarter hours at School B as part of the program at School A. What is the student's enrollment in semester hours?

$$9 \text{ quarter hours} \times \frac{2^*}{3} = 6 \text{ semester hours (equivalent at School B)}$$

Then, the hours taken at both schools can be added together:

$$\begin{array}{r} 6 \text{ semester hrs. at School A} \\ +6 \text{ semester hrs. at School B} \\ \hline 12 \text{ semester hours} \end{array}$$

EXAMPLE 2:

In the same example as above, the "home institution" is School B, and the 6 semester hours must be converted into the equivalent quarter hours:

$$6 \text{ semester hours} \times \frac{3}{2} = 9 \text{ quarter hours (equivalent at School A)}$$

Then, the hours taken at both schools can be added together:

$$\begin{array}{r} 9 \text{ quarter hrs. at School A} \\ +9 \text{ quarter hrs. at School B} \\ \hline 18 \text{ quarter hours} \end{array}$$

*A quarter-hour is approximately 2/3 of a semester hour.

It is the responsibility of the school that disburses the Pell award to maintain information on the student's eligibility, how the award was calculated, what money has been disbursed, and any other documentation, even if some of that documentation must come from other schools.

COOPERATIVE EDUCATION

In a cooperative education program, the school assesses the work to be performed by the student and determines the equivalent academic course load. The student's enrollment status is based on the equivalent academic course load.

Costs for a co-op program

If a student has a co-op job for the first term, the tuition and fees for that period can be projected over a full academic year (of at least 30 weeks). For example, a student has a co-op job for the first quarter of the academic year and pays a $50 fee and no tuition. The $50 fee can be projected for each of the three quarters in the academic year for a total

tuition and fee amount of $150. This amount is then added to the other COA components to arrive at the total cost for that term. Note that the COA may include employment-related expenses; see Section Two of Chapter Two. You may, if you choose, recalculate the student's tuition and fees at the end of the first term, rather than use the COA for the period of co-op study for subsequent payment periods. This decision must be consistent with your school's overall policy on recalculating for changes in a student's costs. (For more information, see Section Five of this chapter.)

CORRESPONDENCE STUDY COMBINED WITH REGULAR STUDY

If correspondence coursework is to be combined with regular coursework, the correspondence courses must meet the following criteria to be included in the student's enrollment status:

- The courses must apply toward the student's degree or certificate or must be remedial work to help the student in his or her course of study; and
- The courses must be completed during the period required for the student's regular coursework.

When combining the number of hours of correspondence work with the number of hours of regular coursework to determine the student's enrollment status for a Pell, the amount of correspondence work may not exceed the number of hours of regular coursework in which the student is enrolled. (However, if the student is taking at least a half-time load of correspondence courses, the student would be paid at least as a half-time student, regardless of the hours of regular coursework.)

The following chart gives examples of the above rules. The chart assumes that the school defines full-time enrollment as 12 credits per term, making half-time enrollment 6 credits per term. As you can see in the second and third examples, the number of correspondence hours that were counted in the total course load were adjusted so that the correspondence hours never exceed the regular hours taken. Note that in the last example, the student is eligible for payment based on half-time enrollment in correspondence courses, despite the fact that the student only took 2 hours of regular coursework.

Regular work (credit hrs.)	*Correspondence work (credit hrs.)*	*Adjusted Total Course Load*	*Enrollment Status*
3	3	6	Half time
3	6	6	Half time
3	9	6	Half time
6	3	9	Three-quarter time
6	6	12	Full time
2	6	6	Half time

A student will be paid as a less-than-half-time student for any combination of regular and correspondence work that is less than six hours.

FOREIGN STUDY

A student can be paid a Pell for study at a foreign school only if the coursework is taken as part of an eligible program at an eligible U.S. school. The foreign study arrangement must be covered by a written agreement between the two schools. Such an arrangement would have to meet the same requirements as a contractual agreement (see the discussion in Chapter Three, Section Six).

Students enrolled in study abroad programs with costs of attendance higher than those of the home school may receive a higher Pell award to cover those costs, not to exceed the maximum Pell award.

INCARCERATED STUDENTS

Federal, state prisoners not eligible

The Violent Crime Control and Law Enforcement Act of 1994 amended the HEA to provide that students incarcerated in federal and state institutions are not eligible for Pells. However, students incarcerated in local penal institutions may still receive Pells. Students incarcerated by jurisdictions defined as a state in the law (such as the District of Columbia) are considered to be incarcerated in a state institution and are not eligible for Pell. Students incarcerated by a local jurisdiction *within* a jurisdiction defined as a state are eligible for Pell. The restriction that the student be incarcerated in a state that uses Pell funds to supplement, not supplant, state funding has also been removed. See "Dear Colleague" Letter P-94-7 for further information.

Allowable costs of attendance for incarcerated students are limited to tuition and fees and only those books and supplies related to the student's course of study.

JOB TRAINING (JTPA) PROGRAMS

If a program conducted with funding provided through the Job Training Partnership Act (JTPA) is offered by an eligible institution and meets the definition of an eligible program, eligible students in that program may receive Pell assistance.

Tuition and fee charges for JTPA programs

The amount of a Pell for students in JTPA programs is calculated just as for any other Pell recipient. A school may include a tuition and fee charge in the COA for a Pell recipient only if that charge is actually made to the student and is paid either by the student or by some type of student financial assistance (such as JTPA). The existence of such a tuition and fee charge must be documented in the same way as for any non-JTPA student—for instance, in the school's contract with the student, or in the agreement with the JTPA agency. (If the school charges the student for tuition and fees, the school would have to expect the student to pay the charge if the JTPA agency or other source of assistance does not pay on the student's behalf.)

On the other hand, if the school does not actually charge the student for tuition and fees (either because it is prohibited from doing so under the JTPA contract, or for other reasons), then **no tuition and fee component would exist for the Pell COA.** Even if there is no tuition and fee component, the student's COA includes the other components described in Chapter Two.

Reimbursement contracts

Note that certain JTPA contracts operate on a "reimbursement" basis; that is, the student must fulfill the terms of the contract before JTPA will reimburse the school for tuition and fee costs. If the student does not fulfill the terms of the contract, the school is left with an unpaid tuition and fee charge. Contracts are established this way to offer schools an incentive to properly train and place students enrolled in the training programs. However, as mentioned previously, if a tuition and fee charge is included in a Pell recipient's COA, the student is liable for any outstanding charges if JTPA does not pay them. If a student did not fulfill the contract under a reimbursement contract, a school that included a tuition and fee charge would have to require the student to pay that charge because JTPA would not pay it. This would undercut the JTPA contract by removing the incentive to the school. Therefore, schools that enter into reimbursement contracts **must remove the tuition and fee component** from the Pell COA because, under these contracts, schools are prohibited from holding the student liable for outstanding charges.

REMEDIAL COURSEWORK

A noncredit remedial course is one for which the school allows no credit toward a degree or certificate. A reduced-credit course is one for which the school gives some credit toward the degree or certificate, but not as much as would normally be given based on the workload required by the course. To simplify the following discussion, we will use the phrase "noncredit remedial coursework" to refer both to noncredit courses and to the noncredit portion of a reduced-credit course.

Allowable coursework

When figuring enrollment status, the school must include any noncredit remedial coursework designed to increase the student's ability to pursue his or her program of study. However, the student must have already been accepted into an eligible program and must be taking the remedial courses as a part of that program. If the student's acceptance into the program is conditional on the completion of the remedial work, the student is not considered to be enrolled in an eligible program while taking the remedial courses. Noncredit remedial coursework may not be included in the student's enrollment status if the coursework leads to a high school diploma or its equivalent, or if one academic year of the remedial work would not adequately prepare the student to successfully pursue postsecondary study.

The school determines how many credit or clock hours to include in the student's enrollment status for a remedial course by comparing the workload (classwork plus homework) in that course to the workload for the most comparable course that is not reduced credit or remedial.

One-year limit

There is a limit on the amount of noncredit remedial coursework that can be included in a student's enrollment status. The school may not take into account more than one academic year's worth of noncredit remedial coursework (30 semester hours, 45 quarter hours, or 900 clock hours—the equivalent of a typical academic year). However, courses in English as a Second Language (ESL) do not count against the one-year limit.

ESL as an eligible program

Schools may pay Pells to students enrolled in ESL programs if the ESL program consists solely of ESL coursework, meets the definition of an eligible program (see Chapter Three, Section One), and enrolls only undergraduate students who need the program to be able to use already existing knowledge, training, or skills. To apply for a determination of the eligibility of an ESL program, the school should contact the Institutional Participation Division (see organizational listing in Chapter One).

SECTION FOUR: DISBURSING FEDERAL PELL GRANT AWARDS

It may seem that most of the work is done once the student's award has been calculated. However, there is still the matter of actually getting the payment to the student. **Keep in mind that you must pay *any* student who is eligible** (including payment for less-than-half-time students), and that you must make payments for ***all*** eligible periods of enrollment (including remaining eligibility for students in summer school terms).

All eligible students _must_ be paid for _all_ eligible enrollment

In this section, we discuss how payments can be made (by check or credit to the student's account) and when the payments can be made. Below we discuss the Certification statement that each aid administrator must sign before any payment can be made. (See Chapter Two, Section One for information on the statements *students* must sign.)

On December 1, 1994, the Department published new regulations regarding cash management. These regulations provide uniform rules for disbursing and managing funds for all programs. We will note the effect of these rules on the Federal Pell Grant Program in this section, but you should refer to Section Three of Chapter Three for more information.

SCHOOL CERTIFICATION AND STUDENT ELIGIBILITY

School certification

You must sign either the Certification statement on Part 3 of the SAR or the Certification statement your school uses if it participates in the RDE, the EDE, or the Floppy Disk Data Exchange systems. The procedures used are slightly different for the four systems.

The Certification statement on the SAR says that the student's Pell was calculated in accordance with program regulations, the instructions in the *Federal Student Financial Aid Handbook,* and the 1995-96 Payment Schedule. The statement further certifies that the student is making satisfactory academic progress, has signed the required statements, and has completed verification (if required). The Certification statement for RDE, EDE, and Floppy Disk systems states that the information about the student is accurate and complete. Under RDE, you must sign the Certification statement that is part of the transmittal included with the tape.

Under EDE, there is a signature flag in the record. Under the Floppy Disk Data Exchange, you will be asked to acknowledge the certification as part of the batch generation process.

As noted in the Certification statement, the school is liable for incorrect payments made to the student because of a mistake by the school. The financial aid administrator is subject to a $10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements.

Reviewing student's eligibility

You must review the student's eligibility at the time you are going to make a payment. For instance, a student may have been making satisfactory academic progress when award letters were mailed in the spring term, but may no longer be making progress when he or she comes to the business office for payment at the beginning of the fall term. Make sure the student still meets the eligibility requirements for the Pell (as discussed in Section One of this chapter), and that the appropriate documentation is in the student's file.

METHODS OF DISBURSEMENT

Credit to account or direct payment

There are two ways a school may pay a Pell to a student: either by crediting the student's account for any outstanding education expenses, or directly (by check or electronic funds transfer [EFT]). (Direct payments to the student are often referred to as "cash disbursements.") The school must have authorization from the student to pay the student by EFT. See Chapter Three for more information about this requirement. Usually, a school will use the Pell to credit the student's account for any unpaid charges for tuition and fees (and room and board, if provided by the school), and then will disburse the remaining amount of the Pell (if any) to the student for remaining living expenses.

Limitation on credit to account

The school may use the Pell to pay other charges at the school only if the student authorizes such a payment in writing. The school may not require the student to authorize such payments. As with any SFA funds, payments may be made only for education expenses.[10] If an account balance remains after the Pell is credited to the student's account, the balance must be returned to the student unless the student provides written authorization. See Section Three of Chapter Three for information on handling student account balances.

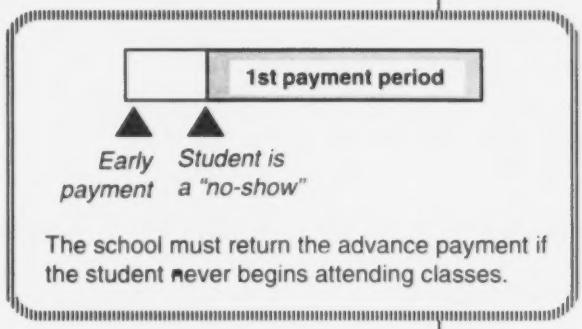
Early payment option

The cash management regulations permit a school to pay a student before the beginning of a payment period if the student has already registered for that payment period. The earliest a school may credit a registered student's account or directly pay a student is 10 days before the first day of classes in the payment period. Previously, schools could credit the

[10]Pell funds may not be used to repay a student's loan. Loan payments are not considered an education expense.

student's account as early as 3 weeks before the first day of classes, but now both methods of disbursement are subject to the same limit. Remember that in a clock-hour program or a nonterm credit-hour program, the school may not pay a student until he or she has completed the coursework for the previous payment period.

If the school uses the Pell to credit the account or pay the student before the payment period begins, but the student never actually begins attending any classes, the school must reimburse the Pell account for that payment. (If the student begins attending some but not all of his or her classes, you may have to recalculate the award—see Section Five.)



The school must return the advance payment if the student never begins attending classes.

FIRST PAYMENT OPTIONS

Must have SAR or ISIR

Under the new Federal Pell Grant Program regulations, schools are **not** allowed to make a first disbursement of a Pell award without a valid SAR or ISIR. If the student needs to make corrections to his or her data, or you wish to use professional judgment to adjust the student's data, you must submit the student's SAR for reprocessing (using Part 2), or make the changes through the Electronic Data Exchange and receive the new SAR or ISIR before making a first disbursement.

Verification

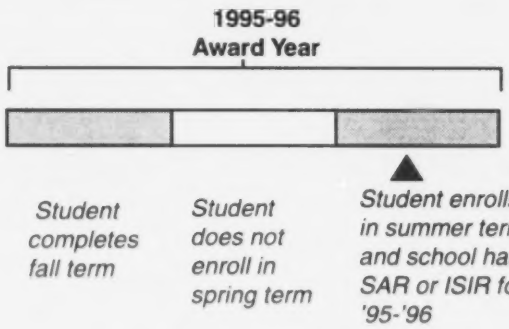
Note that, in some cases, you may make a first payment while the student is being verified, as long as you have no conflicting information. See *The Verification Guide* for more information.

TIMING OF PAYMENTS

The school may use its discretion in disbursing funds within a payment period to best meet a student's needs. For instance, some schools pay students on the first day of class in a payment period, while others wait until the end of the add/drop period. Other schools pay the student in monthly installments to help meet living expenses throughout the payment period. (Note that if you ration cash disbursements to students throughout the payment period, you must have the student's authorization in writing.) In all cases, however, the full amount due the student for a payment period must be disbursed to the student before the end of the payment period.

Retroactive payment

The school may pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, if the school has a valid SAR or ISIR for the student


1995-96
Award Year
Student completes fall term
Student does not enroll in spring term
Student enrolls in summer term, and school has SAR or ISIR for '95-'96

Even if the school does not receive the student's SAR or ISIR until late in the award year, the student can be paid for previous eligible payment periods in the same award year (in this case, the fall term, assuming that the summer term is part of the '95-'96 award year).

while he or she is enrolled as an eligible student in the summer term, but the student was also enrolled and eligible for payment in the fall term, that student can be paid retroactively for the fall term.

However, the fall payment would be based on the hours ***completed*** by the student for that term. If the student had enrolled as a full-time student at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive payment must be based on half-time status.

A school may make any retroactive payments in one lump sum to decrease the administrative workload.

Notification of payment

The school must notify the student of the amount he or she will be paid and the method of payment (by credit to account or directly by check or EFT). If the school will be paying the student by check, it must tell the student when the check will be available and where to go to pick it up. (It is helpful to include the cashier's office hours in any notification.)

If the student does not pick up the check on time, the school must still make that payment available to the student for 15 days after the student's last day of enrollment for that award year. (Instead of holding the check for that period, the school may cancel the first check and issue a new check when the student requests payment.)

EXAMPLE

A student attends the fall term at a community college. The college credits the student's account for tuition and fees early in the term and sends a letter to the student to notify her of the cash disbursement. However, at the end of the term, the student still has not picked up the check.

The school *must* release the check to the student if she claims it within 15 days after the end of the fall term. If the student has withdrawn from school but resumes enrollment later in the award year, the school must again make the payment for fall living expenses available to the student.

If the student has not picked up the check at the end of the 15-day period, the school may credit the student's account ***only*** for outstanding charges for *tuition and fees* and *room and board* for the award year. If the student contacts the school to request the check more than 15 days after the student's last day of enrollment, the school may pay the student (if it chooses) through the next payment period, even though the student is no longer enrolled. The school may mail the check to the student, rather than waiting for him or her to return and pick it up.

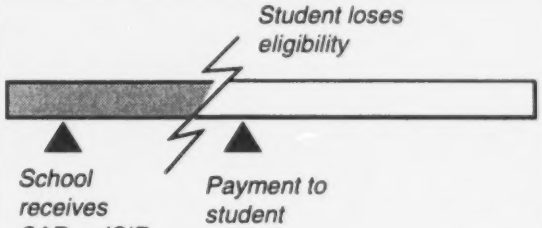
Payments to students who have completed a program

If there is a delay in a school receiving its Pell funds, some students could complete their program or academic year before receiving their final Pell awards. If this happens, as soon as the school receives its funds, it must pay any student who has a valid SAR or ISIR. Even though these students would receive their payments late, no regulations would be violated because the students had previously met all the requirements for payment.

Payments to students who have lost eligibility

Ordinarily, a student who has lost his or her Pell eligibility cannot be paid. However, in some cases, the school may have received the student's valid SAR or ISIR while the student was eligible for payment, but the student lost eligibility before his or her account was credited or he or she received a cash disbursement. In such a case, the school may pay the student only the amount of Pell funds that could have been used for educational purposes before the student became ineligible. A late Pell disbursement can be made in two ways: credited to the student's account to cover institutional charges or paid directly to the student (in cash or by check or EFT) for non-institutional costs, such as living expenses.

For example, a student submits a valid SAR during the second week of classes and is eligible for payment at that time. But by the time the check is processed for the student's cash disbursement and the student has been notified to pick up the check, the student has withdrawn from school.



A student who loses eligibility after the school receives a SAR or ISIR can still be paid, but only up to the amount that could have been used for educational purposes before the student lost eligibility.

The aid administrator must determine what institutional costs for the enrollment period still exist (that is, what costs have not been paid by the student or other sources of aid). A late Pell disbursement not to exceed remaining costs can be credited to school charges, provided the disbursement does not exceed the amount of the Pell for which the student was originally eligible.

To make a late Pell disbursement directly to the student, the aid administrator must determine those non-institutional expenses that could reasonably have been incurred up to the date the student lost eligibility and that were not covered by cash disbursements of other aid. A late Pell disbursement not to exceed the amount of those expenses can be paid to the student, provided it does not exceed the amount of Pell for which the student was originally eligible.

DISBURSEMENTS FOR STUDENTS WHO WITHDRAW AND LATER RETURN

A student who withdraws but returns to the program in the same award year may be paid the amount of any refund that was returned to the Pell account. For example, a student is given a Pell disbursement of $875 for the first of two payment periods, then withdraws in that payment period. The school calculates a refund and returns $400 to the student's Pell account. If the student returns in the same award year, the student may be paid the $400 when he or she reenrolls in the program. When the student completes the payment period, he or she would be eligible for the Pell disbursement for the next payment period.

If a student withdraws from a clock-hour program but returns to it in the same award year, or in the subsequent award year, the student will be held accountable for the remaining clock hours in the payment period before the next disbursement of the Pell can be made. However, in the case of a student who returns two years after withdrawing, the school may pay the student without waiting until the student has completed the hours from the previous period of enrollment.

"Incompletes" at term schools

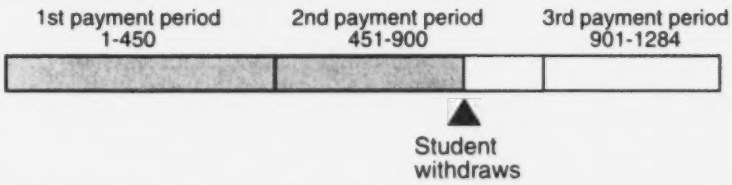
A student enrolled for the fall semester withdraws before the semester is over, receiving all "W's" before the school receives his or her SAR or ISIR. When the student reenrolls for the spring semester, the "W's" are changed to "incompletes." When the student submits a valid SAR or ISIR, he or she can be paid retroactively for the fall semester. The understanding is that the student would have the opportunity to complete the fall courses.

Retaking hours and courses

In general, students at term-based credit-hour schools may receive Pell funds for retaking coursework. The situation is more complicated at clock-hour schools. The following example will clarify the eligibility of students for Pell disbursements when they are retaking clock hours for which they have already been paid.

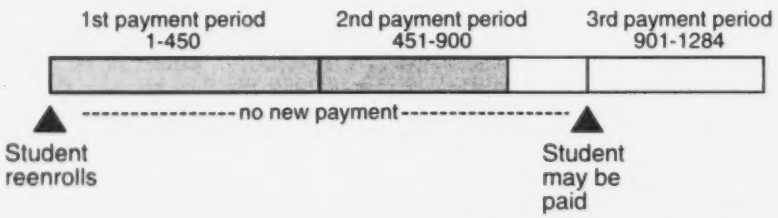
Example

A student enrolled in a 1,284-clock hour program in September. The school defined the academic year as 900 clock hours. The student was paid for the first payment period (1-450) and second payment period (451-900). He withdrew due to illness after completing 768 hours (first payment period plus 318 hours of second payment period).



When the student recovered, he had to wait until the next enrollment group in September of the following year. He completed the entire course, including the repetition of the first 768 clock hours. The student was making satisfactory progress and was otherwise eligible.

Suppose the student received a Pell refund when he withdrew for those clock hours in the second payment period that he had not completed. How much (and for which hours) could the student be paid when he reenrolls? As the student did not complete the entire clock hour program, he may be paid only for those clock hours for which he has not already been paid. If the student reenrolls for the entire program in the next award year, he may be paid only for the hours that he has not previously been paid (clock hours 901-1284). Note that if the student had reenrolled in the same award year, he could have received the amount that was returned to the Pell account.



Suppose instead that the student did not receive a Pell refund when he withdrew. In this case, the student still may begin to receive Pell funds only after he has completed the 900th clock hour (clock hours 901-1284). Even if the student picked up the program at the 769th clock hour, the situation would be the same. Even if the student reenrolled in the same award year, he would not receive Pell funds until completing the 900th clock hour (because there was no refund).

Let's assume that instead of returning in the next award year, the student returned two years later. The student could then be paid for the entire program because, as noted previously, a student who returns two years after withdrawing is not held accountable for remaining clock hours.

If the student receives his or her Scheduled Award for a clock-hour program, completes the entire program, and later decides to retake the program, the student could again be paid for the entire program.

Clock-hour vs. credit-hour school

The difference in the treatment of a student at a clock-hour school versus a credit-hour school is that at a credit-hour school, a student may be paid to repeat a course and does not necessarily have to have completed the program before he or she can be paid for that course. Generally, at a clock-hour school, the student can be paid again for clock hours that he or she has already completed at that school only if he or she has completed a program and reenrolls to take that program again or another program.

SECTION FIVE: RECALCULATING FEDERAL PELL GRANT AWARDS

The Pell award may have to be recalculated if the student's information changes after the initial calculation or disbursement. (Please keep in mind that this section discusses *award* recalculations, using the Payment Schedule, as opposed to recalculations of the EFC.) Of the significant factors that go into calculating a Pell award, the three that are most likely to change are the EFC, enrollment status, and COA. The Federal Pell Grant Program regulations specify when a school must recalculate an award to take these changes into account, as described below. The recalculation may require adjustments in the student's subsequent payments, or even repayment of the entire grant, as discussed in Section Six of this chapter.

CHANGE IN THE EFC

There are three reasons why the EFC for a student may change during the award year:

Types of EFC changes

1. ***Corrections.*** The student may have to correct an error on the original FAFSA or on the previous SAR or ISIR. This frequently occurs as a result of verification, but it may also be a result of the student's own review of his or her data. If the student has already been paid based on the original EFC, the award will have to be recalculated.

2. ***Updating.*** Students selected for verification are required to update three projected data elements if they change for a reason other than a change in marital status: dependency status, household size, and the number of family members in postsecondary education.

3. ***Professional judgment.*** The aid administrator may, on a case-by-case basis, adjust one or more of the data elements used to calculate the EFC. The aid administrator may need to adjust the EFC during the award year to reflect a student's changed circumstances: For example, if a wage-earning parent dies

after the student's first semester, the aid administrator could adjust the Adjusted Gross Income in the EFC formula to reflect the loss of income.

Recalculation based on valid SAR or ISIR

If there is a SAR or ISIR with an EFC different from the one used for the payment calculation, you must first decide which document is valid. Is this new information the result of corrections to the previous information? Are the corrections accurate and consistent with other information you have about the student? If the new information is the valid information, in most cases you must recalculate the student's Pell award for the entire award year based on the new EFC. However, there is one exception: A student selected for verification cannot *increase* his or her eligibility if the school obtains the corrected SAR or ISIR during the "verification extension" period (60 days after the student's last day of enrollment, not to extend beyond August 30 following the end of the award year). For example, if the student submits a reprocessed SAR during the extension period, and the SAR has a lower EFC than the previous SAR (thereby increasing the student's eligibility), recalculation is *not* permitted. The student would be paid based on the *higher* EFC on the SAR that was submitted earlier. However, if the corrections *reduce* the student's eligibility (that is, if the reprocessed SAR had a higher EFC) then the award must be calculated based on the reprocessed SAR.

Exception: verification extension

CHANGE IN ENROLLMENT STATUS

Pell payments to students in clock-hour programs and programs without terms are always based on the full-time Payment Schedule; therefore, no recalculation is necessary for changes in the hours taken by students in these programs.

Required recalculation: student does not attend class

In a term program that uses credit hours, a school must calculate a student's payment for each term based on the enrollment status and length of enrollment for that term. If a student attended full time for the first term and then enrolled half time in the second term, you must use the half-time enrollment status to adjust the student's payment for the second term. In addition, if the student does not begin attendance in all of his or her classes, you must recalculate the student's award based on the lower enrollment status. For instance, a student registers for a full-time course load (15 hours) but only begins attendance in three classes (9 hours). The student's Pell must be recalculated based on the lower enrollment status.

Optional recalculation: enrollment change within a term

The regulations do not require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, some schools have a policy of recalculating an award if a student's enrollment status changes at any time within a term. If such a policy is established, it must be applied consistently to all students: If the school chooses to recalculate for a student who changes from half time to

full time, it must also recalculate for a student whose enrollment status decreases.

Payment when enrollment changes within a term

If your school does not establish a policy for recalculation within a payment period, a student who begins attendance in all classes would be paid based on the initial calculation, even if his or her enrollment status changes before the payment is made. For instance, a student registers full time, submits a SAR, and begins attending all of her classes. The financial aid administrator calculates a full-time award but, by the time the student comes to pick up the check, she has dropped to half-time enrollment. The student is still paid based on full-time enrollment, as long as she is still eligible for the payment. On the other hand, if the student did not submit her SAR until after she had dropped to half-time enrollment, the Pell calculation would be based on the student's enrollment status at that time (half time).

(A more drastic change in enrollment status, when the student withdraws from school completely, is discussed in Chapter Three, Section Five, "Refunds and Repayments.")

CHANGE IN COST OF ATTENDANCE

COA must be for full year

Schools are not required to recalculate Pell awards for COA changes during the award year. However, if the school recalculates Pell awards for a change in enrollment status, it ***must also*** take into account any changes in the COA at that time. For example, if a student attends full time for the first semester and then drops to less than half time the second semester, the student's COA will change. If it is your school's policy to recalculate for the enrollment change, you must use the cost for a less-than-half-time student ***for a full year*** to calculate the student's less-than-half-time award. You cannot combine the two costs or average them.

COA changes between payment periods

Some schools elect to recalculate awards when the COA changes from one payment period to the next—for example, because of changes to the student's tuition and fee costs, or because the student's living situation changes (for example, the student moves off campus). A school may recalculate Pell awards for cost changes within the award year, as long as the recalculation policy is carried out for all students whose costs change.

COA changes within a payment period

Some schools also recalculate financial aid awards when a student's costs change *within* a payment period. For instance, if a student with no dependents moves from a dormitory to off-campus housing at midterm, the school may wish to recalculate the student's award for that payment period. Again, for Pell purposes, such a policy is acceptable if it is carried out for all students whose costs change within the payment period. Note

that a school may establish a policy of recalculating for cost changes from one payment period to the next and, at the same time, have a policy not to recalculate for cost changes *within* a payment period.

Please keep in mind that you may not recalculate the payment for a payment period that took place *before* the cost change. For instance, in the example above, if the student lives in the dormitory during the first quarter and then moves off campus for the second and third quarters, the recalculation would only affect the payments for the second and third quarters.

SECTION SIX: OVERPAYMENTS AND OVERAWARDS

An overpayment of a Pell occurs any time the student receives a payment that is greater than the amount for which the student is eligible. Examples of the four most common types of overpayments are given below.

Types of overpayments

1. ***Student error,*** such as failing to report the spouse's income on the application.
2. ***School error,*** for instance, when a student's award is taken incorrectly from the Payment Schedule, or when the school pays a student who is not making satisfactory progress.
3. ***Required recalculations,*** when a student never begins attending class or does not begin attending all of his or her classes, or withdraws from school after receiving a cash disbursement for living expenses. (See "Refunds and Repayments" in Chapter Three of this handbook for repayment calculation.)
4. ***Optional payments,*** for instance, when the school makes an interim disbursement to a student selected for verification, but the student never completes verification.

No matter what the reason for the overpayment, it must be repaid by the student, or the school must otherwise resolve the overpayment. In addition, if the overpayment is the result of a school error or an optional payment, the school must repay the Pell account whether or not it succeeds in collecting the overpayment from the student.

"Hold file"

A student who owes an overpayment on a Pell that has been reported to the Department and who subsequently submits a FAFSA will be informed that the application cannot be processed because of the overpayment, and that the student is not eligible for additional federal aid until he or she repays in full the amount owed. An EFC will not be calculated for such a student. The student's application is considered to be in a "hold file."

If a school has made an overpayment to a student, it may continue to make payments to that student under certain circumstances:

The overpayment is due to the school's error—The school may continue to make Pell payments to the student if the student acknowledges the overpayment in writing and agrees to repay it within six months, or if the overpayment can be eliminated within that award year by reducing the student's subsequent Pell payments during the award year. Of course, the student must still meet all other eligibility criteria in order to receive payment.

The overpayment is not the school's fault—For instance, the student may have made a mistake on the application.[11] Or, the school may have had no information in its records indicating a student had ever attended another school and made an award that resulted in an overpayment. In cases such as these, the school may continue to make Pell payments to the student if the school can reduce the student's subsequent Pell payments to eliminate the overpayment in that award year. ***If the overpayment cannot be eliminated in this way, the school may not make further Pell payments to the student until he or she completely repays the school.*** If the student will not agree to repay, the school is not liable to the U.S. Department of Education, but must make a reasonable effort to contact the student and collect the overpayment.

NOTE: A school may not reduce a student's Pell award from the current award year to eliminate a Pell overaward from a previous award year. For example, if a student received an overaward in 1994-95, a school may not reduce any portion of the student's 1995-96 Pell award to eliminate the overaward.

Financial Aid Transcripts

If a student transfers from School A to School B and receives an overpayment at School B because School A completed the student's financial aid transcript improperly, School A may be subject to a fine or other adverse action. School B will not be liable for the overpayment but is responsible for attempting to collect it.

If School A requests a financial aid transcript from School B but has not received it, School A may make a Pell disbursement to the student for only one payment period. School A would not be liable for an overpayment unless it made payments for more than one payment period.

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[11]Note that in cases where the overpayment is the result of an error on the SAR or ISIR, the overpayment is the difference between the amount the student was eligible for, based on correct information, and the amount the student was actually paid.

School has closed

If School B cannot obtain a financial aid transcript from School A because that school has closed, School B may request assistance from the U.S. Department of Education by writing to—

Federal Student Aid Information Center
Financial Aid Transcript Request
P.O. Box 4129
Iowa City, Iowa 52244

See Chapter Three, Section Four of this handbook for more information.

Overpayments Collected

Overpayments from a prior award year

If a student repays a Pell overpayment for a prior award year, you must deposit the funds in your institutional federal funds or Pell account and report the decrease in the student's award to the Federal Pell Grant Program (see Section Seven of this chapter). The funds can then be used for current year disbursements. At the same time you report the decrease to the Federal Pell Grant Program, you must also report the decrease to your total Pell expenditures for the prior award year on the Federal Cash Transaction Report (ED/PMS 272A)—see the instructions in Chapter 6 of the *Recipient's Guide to the Payment Management System.*

Reporting an award decrease after September 30

If you need to report a decrease in a student's Pell award to the Federal Pell Grant Program after the September 30 student award data submission deadline, you may use the "Decrease Award Report," provided in "Dear Colleague" Letter P-94-6, dated November 1994. You may also use your own stationery, if you choose. You report downward adjustments to a student's Federal Pell award under the following conditions:

- An award on the Student Payment Summary is greater than the award disbursed, and the student's true award amount must be reported.
- The student received an overpayment because of an institutional error or optional payment, and you must report the student's true award amount. (You must report the true award amount regardless of whether the student has repaid any part of the overpayment.)
- The student received an overpayment because of a student error or change in attendance or costs, the student has repaid all or part of the overpayment, and you must reduce the award amount on file by the amount of the overpayment that has been repaid.

You should use a separate report for each award year that you need to report an award reduction; always include your school's total Pell

expenditure figure. The business office must also report its corrected total Pell expenditure figure on its ED/PMS 272A.

Problems in Collecting Overpayments

Referrals to the Department

The school must notify the Department's Debt Collection Service if it has serious difficulty in collecting an overpayment from a student: for example, if the school cannot contact the student or the student is uncooperative, or if the school establishes a repayment plan and the student refuses to pay or discontinues payments. If the school is unable to recover or eliminate an overpayment that is not the school's fault, the school must refer the student's case to the Debt Collection Service for collection. (The referral procedures for overpayments are discussed in the *Verification Guide*.)

Effect on eligibility for other SFA programs

After the Department has received the school's information, collected the overpayment from the student (if possible), and resolved the case, it will notify the school by letter of the results. Please note that until the Department has reached a final resolution of the referred case, ***the school may not make any further payments to that student under any SFA program.*** (Note that you must report the overpayment on the student's financial aid transcript.)

Similarly, if the student owes a repayment on other SFA grants or is in default on SFA loans, that student would also be ineligible for a Pell. The general eligibility rules for students in default or overpayment status are discussed in Chapter Two, Section One.

PREVENTING OVERAWARDS

NSSP/ Douglas scholarships cannot be reduced

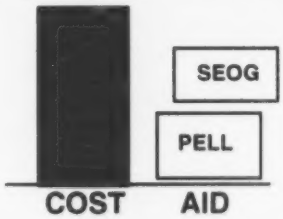
The Pell is generally regarded as the first source of assistance to the student and thus is usually never adjusted to take into account other aid, even if the student's combined aid package exceeds the student's need. However, any funds awarded the student under the National Science Scholarship Program (NSSP) and the Paul Douglas Teacher Scholarship Program (Douglas scholarship) may not be reduced because the student receives other forms of federal student aid—including a Pell. This statutory provision is discussed in Chapter Nine of this handbook.

Adjusting campus-based aid

Note that a Pell may not be adjusted when combined with any aid *other* than an NSSP scholarship or Douglas scholarship. The aid administrator is responsible for preventing an overaward by adjusting the aid the school controls. For example, if the student is receiving campus-based aid in addition to a Pell, the campus-based aid must be adjusted to prevent an overaward. The sum of the student's EFC, Pell, campus-based aid, and any other aid and resources may not exceed the student's COA.

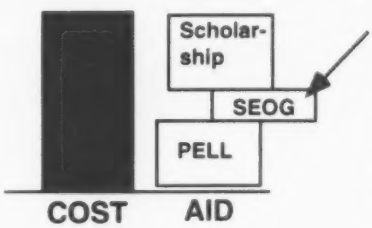
EXAMPLE:

Bill is awarded a $2,200 Federal Pell Grant and a $1,500 SEOG to attend Kaler Junior College and enrolls in the fall term. His cost of attendance is $4,500.



The total aid awarded is $3,700, well within Bill's need (his EFC is 0).

However, the school learns later in the term that Bill will receive a $1,500 art scholarship from a foundation outside the school. The scholarship is not reduced if the student receives other aid.



The school must reduce Bill's SEOG by at least $700 to prevent an overaward. (Otherwise, his total aid, $5,200, would exceed his cost of attendance [$4,500] by $700.)

As mentioned in Section Four, if the student's aid package includes a loan and the package must be adjusted to prevent an overaward, the Pell may not be used to pay back the loan—a loan repayment does not constitute an educational expense.

Estimated financial assistance

In addition to adjusting any campus-based aid, schools are required to include an estimate of the student's Pell eligibility as part of the student's "estimated financial assistance" when certifying a subsidized Federal Stafford Loan application. (See Chapter Ten of this handbook for further information.)

NCAA rules for student athletes

The National Collegiate Athletic Association (NCAA) has rules limiting the amount of aid student athletes may receive. However, the law does not permit schools to adjust students' Pells except in the two circumstances described previously. ***Student athletes must receive the FULL amount of any Pell for which they are eligible.*** If the student's potential aid plus the student's Pell exceeds the NCAA limits, the school must reduce any aid over which it has control, *not* the Pell.

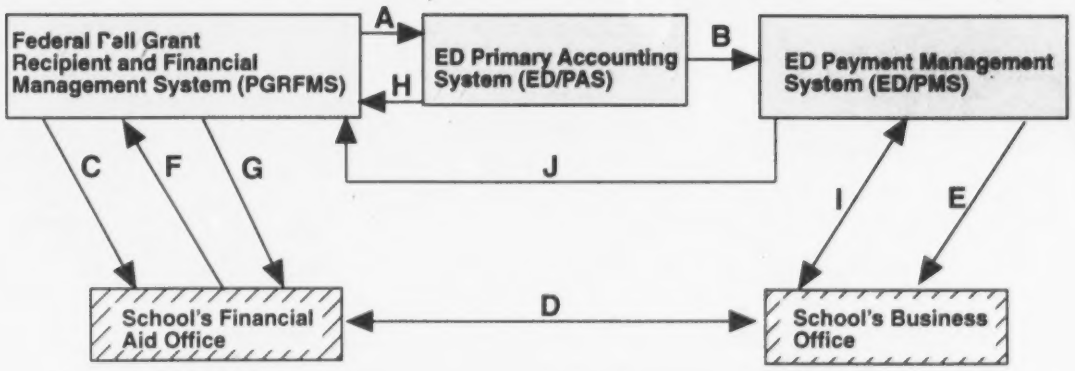
SECTION SEVEN: REPORTING DISBURSEMENTS

So far, we have concentrated on how the school calculates and pays the Pell to the student. This section will explain how to report Pell payments to the Department through the Pell Grant Recipient and Financial Management System (PGRFMS), and how this reporting system affects the school's authorization.

NOTE: Questions about your Pell account (obligations) should be directed to the Institutional Financial Management Division, Accounting and Financial Management Service, (202) 708-9807; fax: (202) 401-0387. Questions about Pell Grant systems (including EDE, RDE, or Floppy Disk processing) or ADP services pertaining to these media types should be directed to the Application and Pell Systems Division, Program Systems Service, (202) 708-7716; fax: (202) 708-9700.

Pell authorization

The authorization for your school is the maximum amount the school may draw down from the ED Payment Management System (ED/PMS). At the beginning of each award year, a school is given an initial authorization based on an estimate of the Pell funds the school will need to cover its first payments. As the award year progresses, the authorization for your school will need to be adjusted based on the actual number of eligible students with valid SARs or ISIRs. (See the graphic on the next page.)



A— PGRFMS establishes authorization and sends PGRFMS accounting data to ED/PAS office

B— ED/PAS approves release of authorizations, notifies the program office, and forwards accounting data to ED/PMS so that school can request funds

C— PGRFMS mails Statement of Account to notify school of authorization

D— School's financial aid office determines Pell awards and requests payment by school's business office; after payment, financial aid office receives notification from business office

E— Business office draws down funds from ED/PMS based on authorization and pays awards to students

F— Financial aid office reports student payment to PGRFMS using RDE, EDE, floppy disk, or Part 3 of SAR

G— PGRFMS returns processed student payment data to aid office and adjusts authorization when necessary (see A through E)

H— ED/PAS sends ED/PAS accounting data to PGRFMS for reconciliation

I— ED/PMS sends ED/PMS 272 to business office; business office completes and returns to ED/PMS

J— ED/PMS sends ED/PMS 272A data to PGRFMS for reconciliation and posting to Statement of Account

The PGRFMS enables the Department to track a school's need for funds as the award year progresses and adjust the school's authorization on that basis. The System also provides documentation to the school to reconcile the school's total expenditures at the end of the year with the records of the eligible students who were paid by the school. (This documentation is the Student Payment Summary—see page 4-109.) The Pell funds that you report to ED/PMS as expended must equal the total payments to eligible Pell recipients at the school, as shown by the records for each student.

REPORTING METHODS

There are four different methods a school may use to report payment information to the Department. One method is to mail the paper documents (SAR Payment Vouchers and the Institutional Payment Summary, which is discussed beginning on page 4-95) to the PGRFMS, addressed to **Federal Pell Grant Program, P.O. Box 10800, Herndon, Virginia 22070-7009.** Schools using this method should note that 1995-96 is the last year that the paper method may be used. In 1996-97, schools must use one of the three automated methods. These three automated

Final Rule 11-1-94

methods transmit the same information as the paper method. Information describing these methods is transmitted to schools through *"User's Guides."*

Electronic Data Exchange

The most widely used automated method is the *Electronic Data Exchange (EDE),* Electronic Payments Service, which allows schools or their service agents to use the school's computers to enter and transmit initial payment data and changes to previously reported payment data. The Department supplies personal computer software. Information is transmitted electronically by telephone line to a communications network, which in turn transmits the information to PGRFMS, thus greatly speeding up the reporting and response time.

Recipient Data Exchange

The second automated method, used especially by schools with large numbers of recipients, is the *Recipient Data Exchange (RDE).* The school mails a magnetic tape or cartridge to PGRFMS, which processes the information and returns the processed data on tape/cartridge and/or paper, as the school requests.

Floppy Disk Data Exchange

The third automated method is the *Floppy Disk Data Exchange,* which permits schools to submit payment information on microcomputer diskettes. Schools using this method submit Payment Data batches on either 5 1/4" or 3 1/2" diskettes.

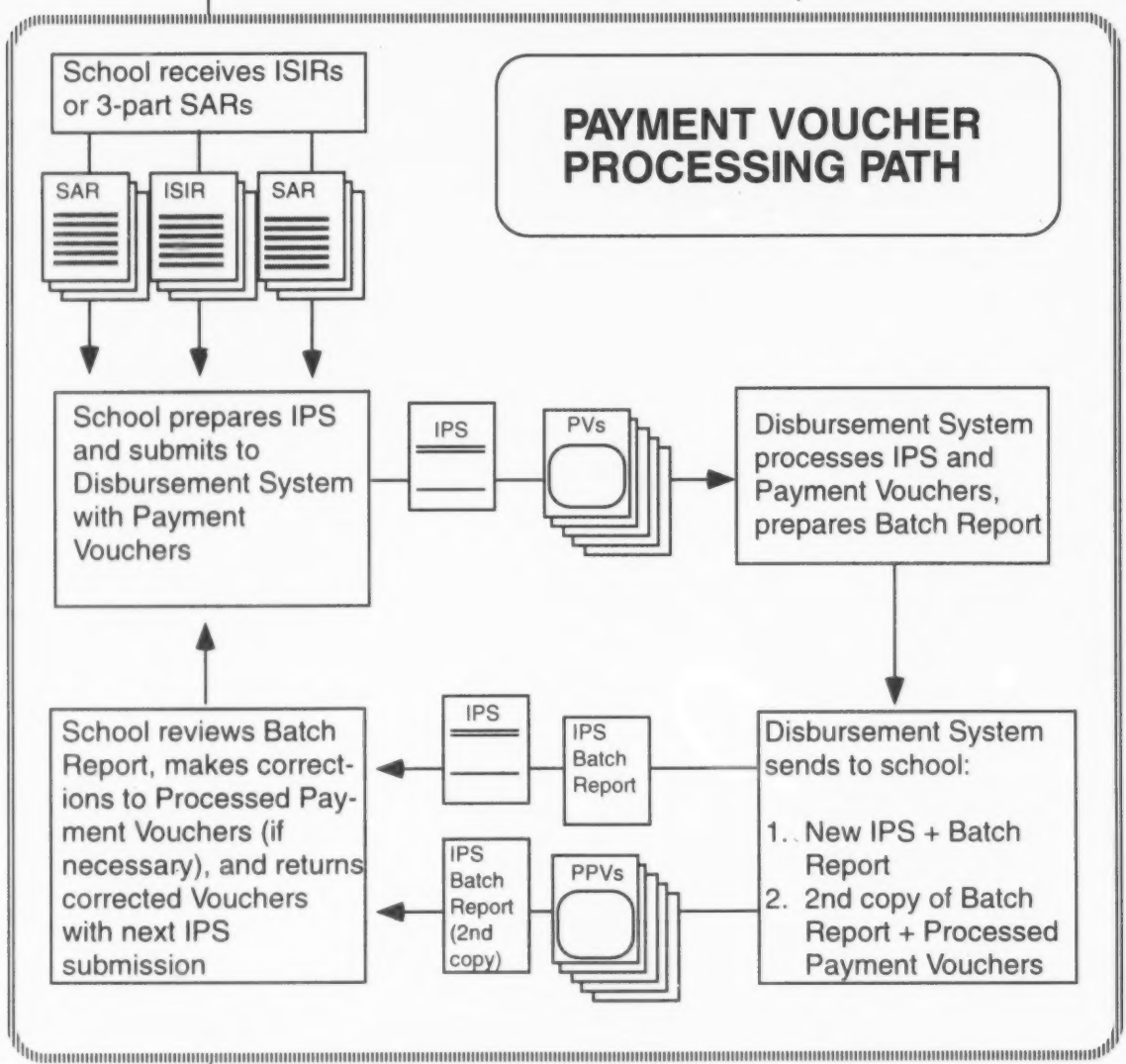
All four methods transmit the same basic student information. The only difference is the way in which the information is sent: by paper, by magnetic tape/cartridge, by telephone line, or by diskette. As mentioned earlier, each school receives a *User's Guide* containing detailed information on the automated system used by that school. In the rest of this chapter, we will provide a general description of the data reporting process. You should refer to your *User's Guide* for specific information about the records used.

PAYMENT VOUCHER[12]

The basic document in the PGRFMS is the Payment Voucher. A Payment Voucher is the electronic or magnetic payment record used in EDE, RDE, or Floppy Disk Data Exchange, or (for 1995-96) Part 3 of the SAR. After the school receives a SAR or ISIR, the school completes the Payment Voucher by filling in award information. The school periodically sends Payment Vouchers for its students to PGRFMS in a batch, along with transmittal information (either the paper Institutional Payment Summary [IPS] or the electronic or magnetic equivalent). (See pages 4-95 and 4-105 for more information on the IPS and on the IPS Batch Report, respectively.)

[12]The Payment Voucher is used to transmit payment information for the Federal Pell Grant Program. The first two parts of the SAR can be used to make awards in *any* of the SFA programs. These two parts are discussed in *A Guide to 1995-96 SARs and ISIRs.*

PGRFMS returns new Payment Vouchers, called Processed Payment Vouchers, to the school. The Processed Payment Voucher will be paper (if the school submitted paper Payment Vouchers) or an electronic or magnetic record. The information that schools originally provided on their Payment Vouchers is included in the Processed Payment Vouchers (it is printed on the paper ones). Comments about the data—what data PGRFMS has accepted or rejected, for example—are included in the Processed Payment Voucher, as are the data accepted by PGRFMS. On the paper Processed Payment Voucher, comments are on the front, and the accepted data are on the back. Schools review the Processed Payment Vouchers and return any corrected ones with their next submission.


PAYMENT VOUCHER PROCESSING PATH
School receives ISIRs or 3-part SARs
SAR
ISIR
SAR
School prepares IPS and submits to Disbursement System with Payment Vouchers
IPS
PVs
Disbursement System processes IPS and Payment Vouchers, prepares Batch Report
School reviews Batch Report, makes corrections to Processed Payment Vouchers (if necessary), and returns corrected Vouchers with next IPS submission
IPS
IPS Batch Report
IPS Batch Report (2nd copy)
PPVs
Disbursement System sends to school:
1. New IPS + Batch Report
2. 2nd copy of Batch Report + Processed Payment Vouchers

Reporting changes in anticipated payments

If the student's situation changes and the anticipated payments are not made, the school **must report this change** by resubmitting the Processed Payment Voucher to PGRFMS. For instance, a student may drop from full-time enrollment in one term to half-time in the next, or may no longer be making satisfactory progress, or simply may not return in the second payment period. In each of these cases, the school must adjust the "Amount to be paid" item and any other relevant items on the Processed Payment Voucher and return it to PGRFMS. (For information on completing the Payment Voucher or Processed Payment Voucher, see page 4-98.)

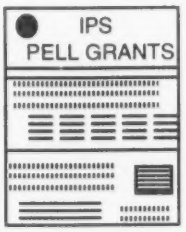
Schools must submit reports on time

Schools must submit Processed Payment Vouchers, for those students whose awards have changed, by the end of the reporting period immediately following the period in which the change occurs. (For information on reporting periods, see the next page.) This requirement ensures that federal funds will not remain at a school when its students do not need the funds. **Schools that do not submit required reports or do not submit them on time, and schools that submit incomplete reports, will have their Pell allocation reduced and may be fined.**

Lost Payment Vouchers

NOTE: If you misplace an original paper Payment Voucher (SAR Part 3) or an entire batch of Processed Payment Vouchers, you may request duplicates by contacting the Application and Pell Processing Systems Division, (202) 708-7716; fax: (202) 708-9700, by the reprint request deadline, which is published each year in the *Federal Register*. (You can also obtain replacement data for a batch or year-to-date data on tape, floppy diskette, or electronically.) You may also write in your request to **Federal Pell Grant Program, P.O. Box 10800, Herndon, VA 22070-7009.** If you need an original paper Payment Voucher for a student, you must provide (1) a photocopy of either Part 1 or Part 2 of the student's SAR, or (2) a photocopy of or printout from the student's ISIR.

INSTITUTIONAL PAYMENT SUMMARY



The IPS is the second important document in the PGRFMS. The IPS serves two purposes: It establishes certain basic demographic information about a school, and it accompanies each batch of Payment Vouchers/Processed Payment Vouchers that schools submit to PGRFMS during the award year,[13] summarizing the information about the Vouchers in that batch. For schools using one of the automated data exchanges, the information collected on the paper IPS is collected in the Header and Trailer records. In the rest of this section, we will use the term IPS to refer to both the paper IPS and the electronic or magnetic equivalents.

[13]EDE and Floppy Disk Data Exchange schools do not submit a paper IPS. RDE schools do not need to submit a paper IPS unless they plan to submit paper Payment Vouchers/ Processed Payment Vouchers along with their tapes.

Schools must submit at least one IPS during each reporting period in the chart below, even if there are no Payment Vouchers/Processed Payment Vouchers to be transmitted for that period. (Failure to submit reports on time may result in a fine and a reduced Pell authorization.) The number of reporting periods depends on the level of your school's authorization for the previous school year:

Reporting periods

Schools with Authorization of $750,000 or more†	Schools with Authorization of less than $750,000†
July 1, 1995—October 15, 1995	July 1, 1995—December 15, 1995
October 16, 1995—December 15, 1995	
December 16, 1995—February 15, 1996	December 16, 1995—April 15, 1996
February 16, 1996—April 15, 1996	
April 16, 1996—June 15, 1996	April 16, 1996—August 15, 1996
June 16, 1996—August 15, 1996	

†Based on Federal Pell Grant Authorization for 1994-95

You may submit an IPS more frequently than once every reporting period if there are enough Payment Vouchers/Processed Payment Vouchers to warrant a separate submission. However, you may not submit more than 98 batches during an award year. Note that all Payment Vouchers/ Processed Payment Vouchers for an award year must be submitted by September 30 following the end of the award year (for example, September 30, 1996 for the 1995-96 award year). You may also need to submit an IPS with Vouchers after the end of the award year to report summer school payments, students who need verification completed, or outstanding payment data changes.

Adjustments after September 30

Adjustments can be made to your Pell account after September 30 only if there is an underpayment or overpayment of previously reported awards, or if the U.S. Department of Education or one of its contractors has made a processing error. A school can also request administrative relief for unusual circumstances beyond the school's control, for example, a natural disaster. These requests must be made in writing and must be received by January 31 of the calendar year following the award year (for example, January 31, 1997 for the 1995-96 award year). Requests for such actions should be sent to the **U.S. Department of Education, Application and Pell Processing Systems Division, PSS, P.O. Box 23791, Washington, D.C. 20026-0791.** If you have questions about administrative relief,

INSTITUTIONAL PAYMENT SUMMARY FOR

FEDERAL PELL GRANTS

1995-96 AWARD YEAR

PLEASE READ INSTRUCTIONS BEFORE COMPLETING THIS FORM

FORM APPROVED
OMB NO. 1840-0540
Expiration Date:
August 1996

SECTION I: GENERAL INFORMATION (Complete only if information below is incomplete or incorrect)

1. Pell Inst. No.:
2. Entity No.:
3. Institution NAME and ADDRESS: ☐ Check here when NAME and/or ADDRESS has been changed and indicate changes below.

4. Type of Institution: 1 ☐ Less than one year 2 ☐ One year but less than two years 3 ☐ Two years but less than three years 4 ☐ Three years but less than four years 5 ☐ Four Years (Baccalaureate degree only) 6 ☐ Five years or more

5. Financial Control: 1 ☐ Public 2 ☐ Private nonprofit 3 ☐ Proprietary

6. 1995-96 Undergraduate Enrollment: A. Full-time B. Part-time (at least half-time)

7. Academic Calendar: 1 ☐ Credit hour (nonstandard term) 2 ☐ Quarter 3 ☐ Semester 4 ☐ Trimester 5 ☐ Clock hour 6 ☐ Credit hour without terms

8. Standard Cost of Attendance (Per Undergraduate Student)

	Total		Tuition and Fees		Room, Board, Books, Misc.		Other
A.	$	=	$	+		+	
B.	$	=	$	+		+	
C.	$	=	$	+		+	
D.	$	=	$	+		+	
E.	$	=	$	+		+	
F.	$	=	$	+		+	
G.	$	=	$	+		+	
H.	$	=	$	+		+	
I.	$	=	$	+		+	
J.	$	=	$	+		+	

9. Hours/Credits* in school's academic year definition (Clock hour programs or credit hours programs without terms only): _____

10. Payment Frequency: 1 ☐ Two per year 2 ☐ One per term 3 ☐ Two per term 4 ☐ Two terms plus mini-term 5 ☐ Monthly 6 ☐ _____ per _____

SECTION II: PAYMENT INFORMATION (To be completed on each IPS)

11. Date Enrolled this Award Year (Month and year only): _____ 9__

12. Months in which REMAINING payments will be made for Payment Vouchers submitted with this IPS: ☐ July ☐ Aug ☐ Sept ☐ Oct ☐ Nov ☐ Dec ☐ Jan ☐ Feb ☐ March ☐ April ☐ May ☐ June

CHECK COMPUTATIONS FOR ACCURACY

13. Number of Payment Vouchers Processed: Payment vouchers submitted with this IPS — 13.
14. Amount Paid to Date (Item 6) on Payment Vouchers Processed: Payment vouchers submitted with this IPS — 14. $
15. Total Payments to date to all Federal Pell Recipients per school records — 15. $
16. Ending Date of Period Corresponding to Amount in Item 15 above (Date entered here must not be after the date reported in Item 20) — 16.

Official responsible for the INSTITUTIONAL PAYMENT SUMMARY must sign Item 17.

17. Signature: _____
18. Name: _____
19. Title: _____
20. Phone: _____ Date Signed: _____
Financial Aid Servicer Code: _____
21. Signature: _____
22. Name: _____
23. Corp. Name: _____ Phone: _____

MAIL THE IPS TO: U.S. DEPARTMENT OF EDUCATION
APPLICATION AND PELL PROCESSING SYSTEMS DIVISION PSS
P.O. BOX 10800 HERNDON VA 22070-7009

CERTIFICATION - I certify that I have examined this Institutional Payment Summary including any accompanying student data and all information is true and complete to the best of my knowledge. I understand that if I knowingly make false or misleading statements on this report, I am subject to a fine of up to $10,000, imprisonment for up to 5 years, or both, under provisions of the United States Criminal Code (including 18 U.S.C. 1001).

ED FORM 255-3b 7/95 (20 U.S.C. 1070a; 34 CFR 690.84)

BEST COPY AVAILABLE

contact the **Institutional Financial Management Division, Accounting and Financial Management Service (202 708-9807; fax: (202) 401-0387).**

Late adjustments due to audit

The Department is required to reimburse a school for any funds found to be owed to the school during any audit conducted after December 31, 1988—including funds for which reimbursement was not requested before the audit. In order to receive reimbursement under this provision, the school must demonstrate that it qualifies based on a finding in an initial report of the school's required compliance audit. This initial report must be submitted by the appropriate deadline. (See Chapter Three for more information about audit requirements and deadlines). The finding does not need to establish the exact amount of the adjustment, but must establish that the school paid Pell awards for which it was not reimbursed by the Department. "Dear Colleague" Letter GEN 94-14, dated April 1994, provides the procedures and format a school should use in requesting this adjustment.

Note that the final deadline (published in the *Federal Register* each award year) for submitting Payment Vouchers/Processed Payment Vouchers and disbursement information will continue to apply. A school that misses the regulatory deadline would not be in compliance with Federal Pell Grant Program requirements.

Adjustments due to overpay-ments

Adjusting for an overpayment is permitted any time the school determines that a student for whom a Payment Voucher had been accepted by PGRFMS received more Pell funds than he or she was qualified to receive. The school may report the reduction to the proper amount, unless the school was not liable for the overpayment; in that case, the school reports the amount to the Debt Collection Service, Student Receivables Division, (202) 708-4766.

Schools using the paper IPS should refer to the "Dear Colleague" Letter sent with their initial IPS for information on how to fill out the IPS. Other schools should follow the instructions provided in the *User's Guide* for the data exchange method they use.

HOW TO FILL OUT THE PAYMENT VOUCHER

Carefully completing the Payment Vouchers for your students ensures that your Pell expenditures are accurately reported, which in turn smooths the process of acquiring additional funds, if necessary. Fortunately, many items will not need to be completed on the Payment Voucher if the correct information is provided for that item on the IPS. Please be careful to use a copy of your most recent IPS for each batch you submit to ensure that the information on the IPS agrees with the Department's current data for your school.

Part 3-Payment Voucher (to be completed by the school)

1 PELL INSTITUTION ID OF CAMPUS ATTENDED

099999 ☐ Yes

2 ACADEMIC CALENDAR

- ☐ 1 Credit hour (nonstandard term)
- ☐ 2 Quarter
- ☐ 3 Semester
- ☐ 4 Trimester
- ☐ 5 Clock hour
- ☐ 6 Credit hour without terms

3 COST OF ATTENDANCE (Dollars Only)

A. Standard OR B. Individual

- ☐ A
- ☐ B
- ☐ C
- ☐ D
- ☐ E
- ☐ F
- ☐ G
- ☐ H
- ☐ I
- ☐ J

4 VERIFICATION STATUS

- ☐ N Not selected
- ☐ A Accurate
- ☐ W Without documentation
- ☐ T Tolerance
- ☐ C Calculated
- ☐ R Reprocessed
- ☐ S Selected, not verified

5 TERM PROGRAMS ONLY

A. Enrollment Status

- ☐ 1 Full-time
- ☐ 2 Half-time
- ☐ 3 Three-quarter time
- ☐ 4 Other
- ☐ 5 Less than half-time

CLOCK HOUR PROGRAMS, OR CREDIT HOUR PROGRAMS WITHOUT TERMS

B. Hours/Credits expected to complete - Paid from this award year

C. Hours/Credits in program's academic year definition

TERM AND NONTERM PROGRAMS NOT USING FORMULA 1

D. Weeks enrolled in this award year

E. Weeks in program's academic year

ALL PROGRAMS

F. PAYMENT METHODOLOGY

- ☐ 1 Formula 1
- ☐ 2 Formula 2
- ☐ 3 Formula 3
- ☐ 4 Formula 4
- ☐ 5 Formula 5
- ☐ 6 Other

6 AMOUNT PAID TO DATE

7 REMAINING AMOUNT TO BE PAID

☐ M More Than a Full Academic Year

8 MONTHS IN WHICH REMAINING PAYMENTS WILL BE MADE

Number

- ☐ Jul
- ☐ Aug
- ☐ Sep
- ☐ Oct
- ☐ Nov
- ☐ Dec
- ☐ Jan
- ☐ Feb
- ☐ Mar
- ☐ Apr
- ☐ May
- ☐ Jun

9 DATE ENROLLED THIS AWARD YEAR

- ☐ Jul
- ☐ Aug
- ☐ Sep
- ☐ Oct
- ☐ Nov
- ☐ Dec
- ☐ Jan
- ☐ Feb
- ☐ Mar
- ☐ Apr
- ☐ May
- ☐ Jun

☐ 1995
☐ 1996

10 SECONDARY EFC USED

9999

- ☐ 6 Secondary
- ☐ 1 Original

11 INCARCERATED

☐ Y Yes ☐ N No

If Yes, state where the student's correctional facility is located

ABCDEFGHI J. ABCDEFGHIJKLMNOPQ
12345 ABCDEFGHIJKLMNOPQRSTUV
ABCDEFGHIJKLMNOPQ AB 12345

100011906 SA 03 0979*C

MAKE NO MARKS IN THIS BOX

100011906SA1901030979 0

If the information on the IPS for a batch does not apply to a particular student, you must complete the appropriate Payment Voucher item(s) for that student. You will also have to fill in an item on the Payment Voucher when there is no preprinted information on the IPS for that item, or you have not filled in the information on the IPS.

One Payment Voucher per Pell recipient

You must submit at least one acceptable Payment Voucher for each Pell recipient at your institution. When you receive a revised SAR or ISIR that you accept as valid for payment, you should submit the revised Payment Voucher with your next batch. PGRFMS's award data processing system will only accept one award per recipient per attended campus. PGRFMS will ***automatically*** replace the previously accepted award data with the data reported on the revised Payment Voucher. Therefore, do not submit the Processed Payment Voucher corresponding to the Payment Voucher that you originally submitted in an effort to reduce the student's previously accepted award amount to $0.

See *A Guide to 1995-96 SARs and ISIRs* for more information on paper Payment Vouchers, and the appropriate *User's Guide* for other Payment Vouchers.

Specific Payment Voucher Items

Pell Institution ID of Campus Attended

If this Pell ID is not your school's number, and you are an independent school with no branch campuses, you do not need to correct the ID—PGRFMS will use the Pell ID number for your school from the IPS. If the preprinted ID number is not your school's number, and you are a central/branch school with branches that have unique Pell ID numbers, this item must be corrected to reflect the correct branch Pell ID.

Academic Calendar

The academic year categories are defined as follows: *Credit hour (nonstandard term)*—Your school uses nonstandard academic terms but does measure progress by credit hours or units. *Quarter*—Your school uses standard term quarters and measures academic progress by credit hours. *Semester*—Your school uses standard term semesters and measures academic progress by credit hours. *Trimester*—Your school uses standard term trimesters and measures academic progress by credit hours. *Clock hour*—Your school measures academic progress by clock hours. *Credit hour without terms*— Your school does not use terms, and measures academic progress by credit hours.

If your school has programs with different academic calendars, you might wish to group Payment Vouchers according to programs with the same academic calendar and submit them as separate batches. Thus, if your school had some programs using clock hours and other programs using

quarter terms, you could submit Payment Vouchers for both types of programs separately. This will enable you to use the IPS to identify the academic calendar for all students in the batch. See the instructions for your IPS for more information.

The first time you report an alternate academic calendar on your IPS, the batch may be flagged, and you may receive a call to find out if you are making a permanent change, or if you will be using more than one academic calendar throughout the year. To make a permanent change to your academic calendar (for example, from clock to credit hour), you must receive approval from the Institutional Participation Division of the Office of Postsecondary Education.

Verification Status

You must complete this item. If you leave this item blank, and the student was selected for verification by the CPS, PGRFMS assumes the student was paid under "W" ("Without documentation"). Payment will be limited to one-half of the student's Scheduled Award until the "W" is corrected. In addition, your Pell authorization will be reduced during the final review of your account for all students whose status is still "W" at the end of the award year.

Enter "S" ("Selected, not verified") when the student has been selected for verification, but you do not verify that student's information because you have reached the 30 percent verification limit.

Note that a Payment Voucher resulting from a first transaction (SAR Transaction 01) will be rejected if you fill in "R" ("Reprocessed"). See *The Verification Guide* for further explanation of the status codes and the 30 percent verification limit.

Term Programs Only (enrollment status)

Complete this item only if the academic calendar uses terms (standard or nonstandard). (Select the appropriate enrollment code.)

The enrollment status code "Other" (#4) is used when the student's enrollment status is "mixed"—for instance, when a student attends full time one term and half time the next, or when the student attends an additional (optional) term within the award year. An example would be a student attending both semesters of the regular academic year as a half-time student and then also attending a summer term as a half-time student.

Clock Hour Programs, or Credit Hour Programs without Terms

Hours/credits expected to complete

This item is used along with the next item (Hours/Credits in program's academic year definition) for clock hour programs and credit hour programs without terms. Fill in the hours or credits the student is expected to complete in all payment periods occurring in the current award year.

If you are paying the student in the current award year for payment periods that are in progress or are already completed, be sure to include them in this total. Keep in mind that the student cannot be paid for more than one academic year of work in one award year.

Hours/Credits in program's academic year definition

Note that you do not need to fill in this item if the student's academic year is the same as information for this item on the IPS for the batch. If you do need to complete this item, remember that the hours/credits in the academic year must be at least the minimum hours or credits specified in the regulations (900 clock hours, 24 semester hours, or 36 quarter hours, for example.)

If your school has programs with different academic years, you may wish to group Payment Vouchers according to programs with the same academic year and submit them as separate batches. (See the discussion under Academic Calendar.) This will enable you to use the IPS to identify the academic year for all students in the batch.

If you submit Payment Vouchers with different academic years in the same batch, you must fill in the correct academic year length for those students whose academic year is different from that reported on the IPS.

Term and Nonterm Programs not Using Formula 1

Weeks enrolled

This item is used along with the next item (*Weeks in program's academic year*) for programs not calculating Pell awards using Formula 1. (See Section Two of this chapter for more information about the formulas.) Fill in the weeks of instructional time the student is expected to complete in all payment periods occurring in the current award year. Note that the weeks of instructional time might not be the same as the number of calendar weeks. See Chapter Three for more information.

Weeks in program's academic year

Note that, as with the item *Hours/Credits in program's academic year,* you do not need to fill in this item if the student's academic year is the same as information for this item on the IPS for the batch. If you do complete this item, remember that the weeks must be at least the minimum specified in the regulations (30 weeks of instructional time. unless the school has received a waiver from the Department).

All Programs (Payment Methodology)

In this item, select the formula used to calculate the student's award. The code "Other" is used when more than one formula is used during the award year; for example, if the student enrolled only in a correspondence component for part of the year (Formula 5), and then in residential training for the remainder of the year (Formula 3 or 4).

Amount Paid to Date

You must complete this item for all students. Fill in the actual amount you have paid the student (either by check or credit to the account) as of the date you complete the Voucher. If you have not yet paid the student but need to submit the Payment Voucher, fill in "0" for payment.

Remaining Amount to Be Paid

Fill in the amount you expect to pay the student for the remainder of the award year. This amount should take into account the student's expected enrollment status. For instance, if the student is receiving a $600 Pell disbursement as a full-time student in the first of two payment periods but is expected to drop to half time in the second payment period, the "remaining amount to be paid" would be $300. If you have entered $0 for "amount paid to date" because you have not yet paid the student for the first payment period, then the "remaining amount to be paid" for the student in this example would be $900 (for both payment periods).

You must report "0" in this item if you expect to make no further payments to the student for the award year. Do not leave the item blank. If the value is greater than "0," then you must specify the months in which the remaining amounts will be paid, either on the IPS or on the individual student's Payment Voucher.

The "M" check box, labeled "More Than a Full Academic Year," would be used for students eligible to receive more than one Scheduled Award in a 12-month period. As stated in the Introduction, there is no funding for this provision; therefore, this check box can be ignored.

Months In Which Remaining Payments Will Be Made

If the months in which remaining payments will be made for this student are different from the months you reported on the IPS, or if you did not report months to be paid on the IPS, then you must fill in the information here. The Department will authorize funds for the projected payments *in advance* of the months you enter in this item.

If you have students who will be attending a crossover payment period at the end of the award year, and they will be paid in June, July, or August from this award year's funds, fill in the appropriate months in which remaining payments will be made.

> ***Summer School and Other Crossover Payment Periods:***
>
> If you use 1995-96 funds to pay a student enrolled in a crossover payment period in the summer of 1995, you should prepare the Payment Voucher and submit it in your first batch for this award year.
>
> If you plan to pay a student out of 1995-96 funds for a summer 1996 payment period, generally it will be to your advantage not to notify ED of the payment for next summer until you are reasonably certain that the student will attend. It is recommended that you do not notify ED until at least January 1996. This will save you effort, as you will have to resubmit Processed Payment Vouchers for all students who were expected to attend the summer payment period but later decided not to attend.

Date Enrolled This Award Year

You do not have to complete this item if the date enrolled for this student is the same as the date you entered on your IPS. If the date is not the same, fill in the first date the student was enrolled in the eligible program for this award year. (For this item, "enrolled" means the first day the student attended classes. Chapter Two discusses the regulatory definition of "enrolled" for student eligibility purposes, which is a slightly different definition.) If the student enrolled in a crossover payment period before the first day of the award year (July 1), report the actual date enrolled for this item, even though that date occurs before the start of the award year.

Secondary EFC Used

If you originally reported using a Secondary EFC but later determine that you should have reported payment using the primary EFC, check the box next to number 1 on the paper Processed Payment Voucher for that student. For schools using RDE and EDE, enter the "1" in position 81 of the detailed student payment record. For schools using Floppy Disk Data Exchange, enter the "1" in "Secondary EFC Used."

Incarcerated

Use this item to indicate whether the student is incarcerated. Although students incarcerated in federal or state institutions are not eligible for Pell, students incarcerated in local institutions are still eligible. Select "Y" for these students, and enter the U.S. Postal Service's assigned abbreviation for the state where the student's correctional facility is located.

PROCESSED PAYMENT VOUCHERS AND BATCH REPORTS

Processed Payment Vouchers

The Federal Pell Grant Program will process the Payment Vouchers for your students, which means you will receive Processed Payment Vouchers containing the information you entered. (This information will be printed on the paper Payment Voucher.) You will also receive a new IPS and an IPS Batch Report.

Package 1

Two separate packages will be sent to your school for each IPS you submit with paper Payment Vouchers. Package 1 contains a new IPS to use for your next submission and a copy of your IPS Batch Report. (If you sent in an IPS *without* paper Payment Vouchers, you will only get back Package 1.)

Package 2

Package 2 contains a second copy of the IPS Batch Report and your paper Processed Payment Vouchers, grouped by campus and then placed in the following categories:

> ***Rejected*** —The information on these Vouchers is inconsistent. Correct these Vouchers before resubmitting them.
>
> ***Accepted with Assumptions*** —The information on the Voucher was incomplete, so the system made certain assumptions. Review the Vouchers carefully and resubmit them if corrections are necessary.
>
> ***Duplicates*** —These are duplicates of previously ***accepted*** Payment Vouchers you have already submitted to us and thus are not counted in the "total amount paid to date" or the "remaining amount to be paid" in the IPS Batch Report. Keep these Vouchers in your files. You do not need to resubmit them unless the award year data changes.
>
> ***Accepted*** —Keep these Vouchers in your files. You do not need to resubmit them unless the award year data changes.

The Processed Payment Vouchers are grouped by campus attended; then, within that order, by type of Voucher as listed above; and then in SAR Record ID order.

IPS BATCH REPORT FOR

FEDERAL PELL GRANTS

1995-96 AWARD YEAR

FORM APPROVED
OMB NO. 1840-0540
Expiration Date
August 1996

Pell Institution Number

Entity Number

This report resulted from your IPS dated _____ (item 16 of your IPS)
We received your IPS on _____
We processed this Batch on _____
We assigned this Batch Number to your IPS _____

Information About Your Vouchers/Records

1. Number of Vouchers/Records Submitted to Us in this Batch

   a. Your count _____ (item 13 of your IPS)

   b. Our count _____

   c. Difference between 1a and 1b _____

2. Number of Processed Payment Vouchers/Records Returned to You for this Batch

   a. Rejected (see comments on each Processed Payment Voucher) _____ Correct these and resubmit to us.

   b. Accepted with assumptions (see comments on each Processed Payment Voucher) _____ Review these and resubmit to us if necessary.

   c. Duplicates (of data we already accepted) _____ Keep these in your files unless award data changes.

   d. Accepted _____ Keep these in your files unless award data changes.

   e. Total Processed Payment Vouchers/Records (Sum of 2a, 2b, 2c, and 2d) _____

Information About Your Payments

3. Amount Paid To Date for this Batch

   a. Your amount $ _____ (item 14 of your IPS)

   b. Our amount (item 6 on the Vouchers/Records submitted in this Batch, as we read them) $ _____

   c. Difference between 3a and 3b $ _____

Information for Reconciliation of this Batch

4. Total Payments (item 6 plus item 7 on the Vouchers/Records submitted in this Batch, as we read them) $ _____

5. Adjustments We Made

   a. Changes we made because of Vouchers/Records we rejected (counted in 2a) $ _____ –

   b. Changes we made because of Vouchers/Records we accepted with assumptions (counted in 2b) $ _____ –

   c. Changes we made because of Vouchers/Records for duplicates (counted in 2c) $ _____ –

   d. Total Payments we previously accepted for students submitted in this Batch (not including duplicates in 5c) $ _____ –

   e. Total of the adjustments we made (Sum of 5a, 5b, 5c, and 5d) $ _____

6. Net Adjustment to your Payment data as a result of this Batch (Difference between 4 and 5e) $ _____

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Review each Processed Payment Voucher carefully. If, after reviewing the information on the Processed Payment Voucher and the instructions in this section, the IPS "Dear Colleague" Letter, and the appropriate *User's Guide* on correct reporting procedures, you still do not understand why the award data submitted for a student did not result in the processed data you expected, contact the Application and Pell Processing Systems Division, (202) 708-7716.

IPS Batch Report

The first three items on the IPS Batch Report summarize information about the Payment Vouchers/Processed Payment Vouchers you submitted. Items 1 and 2 tell you how many Payment Vouchers/Processed Payment Vouchers the Federal Pell Grant Program received and how they were processed (for example, accepted or rejected). Item 3 is the total amount paid to date for all the students in that batch (taken from the total of each Item 6 on each Payment Voucher/Processed Payment Voucher). Note that the Department's count in items 1 and 3 should agree with the amounts you reported in items 13 and 14 of the IPS.

The last three items show how your payment data was adjusted for any Payment Vouchers/Processed Payment Vouchers that were rejected, accepted with assumptions, etc. The adjustments made (Item 5e) are subtracted from the total payments for the students in that batch (Item 4). The result (Item 6) is the net change to the accepted student payment as a result of the particular batch.

REPORTING CHANGES ON THE PROCESSED PAYMENT VOUCHERS

If the Processed Payment Vouchers you have received are accurate and there are no changes to the students' awards, simply retain these Vouchers in your files. However, if the information for any student is wrong or changes during the award year, you may have to correct the Processed Payment Voucher and resubmit it with your next batch. (See the next page for corrections that do not have to be made.) Corrected Vouchers must be submitted no later than the end of the reporting period following the period in which the change occurred. **Failure to submit reports on time may result in fines and reduced Pell authorizations.**

To make corrections to a paper Processed Payment Voucher, fill in the correct information in the blocks under the preprinted information. Note that the Department never uses the information on the IPS to change the information on a Processed Payment Voucher. You have to correct the Processed Payment Voucher itself. See the *User's Guides* for information on correcting other Processed Payment Vouchers.

The most frequently required changes are to COA,[14] verification status (to update a "W"—payment without documentation), enrollment status (term schools), and payment amounts and dates. Other changes occur less

[14]Usually, only changes to costs of $2,340 or less will be reported, as changes to costs above $2,340 will not affect the student's award.

frequently, except in cases of error. For instance, one would not expect the school's academic calendar to change during the award year.

Optional corrections

Some corrections do not substantially affect the student's award and need not be reported to the Department:

Academic Calendar —You do not have to report a change from one type of standard academic term to another (for example, from a quarter system to a semester system). However, changes from a credit hour to clock hour calendar, for example, must be reported.

Cost of Attendance —You do not have to report a change that does not increase or decrease the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

Verification Status —If the verification status accepted by the Federal Pell Grant Program for the student was N, A, T, C, R, or S, you do not have to report a change to that status. **If the student's status was "W," you must report a change to that status once you receive full documentation from the student and you complete verification.**

Enrollment Status —You do not have to report a change to enrollment status that does not increase the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

You will have to report a change in enrollment status if a student attends for a longer period than expected and the result is a greater award. For example, if you have a three-quarter-time student who decides to attend summer school as a three-quarter-time student, you must change *Enrollment Status* to "Other" at the same time you report the larger award amount. If you leave the student's status as three-quarter time, PGRFMS assumes that the student's three-quarter-time award is being exceeded, and the larger award amount will not be put on file for the student.

Hours/credits expected to complete, Weeks enrolled —You do not have to report a change to these items if the change does not increase the amount the student will be paid for the year (Amount paid to date + Remaining amount to be paid).

Hours/credits in academic year, Weeks in academic year —You report a change to these items only if you are redefining your academic year. (For example, you decide to change your 32-week academic year to 30 weeks.)

Months in Which Remaining Payments Will Be Made —You do not have to report changes to this item. However, we encourage you to report changes if they apply to a significant number of your students, so that your funding can be adjusted accordingly.

STUDENT PAYMENT SUMMARY

The Student Payment Summary (SPS) lists the student data in the Department's records for each Pell recipient for whom you submitted a Payment Voucher for the award year. The SPS enables you to check your records to determine any additions and changes to your student data that you need to report to the Department, or any corrections you need to make in your institutional records. An SPS is routinely sent to each school for review at least three times during the award year as well as at the end of the award year. (You may also request an SPS during the award year by writing the U.S. Department of Education, Application and Pell Processing Systems Division, P.O. Box 23791, Washington, D.C. 20026-3791; or by calling (202) 708-7716; fax: (202) 708-9700. You may also call the number given if you have general questions about your SPS.

The SPS reflects each Payment Voucher for the award year (as of the date in the upper right corner) that the Department accepted, or rejected but retained in its records. The SPS **excludes** Vouchers that the Department rejected and did not retain, as well as Vouchers your school submitted that duplicated data already accepted.

Students are listed on the SPS in Pell Institution Number order by the attended campus you reported, then alphabetically by last name. The Department provides summary statistics of all student activity at the end of each attended campus and, for your entire institutional system, at the end of your SPS.

Appendix 1, beginning on page 4-113, gives an item-by-item description of your SPS. Appendix 2, beginning on page 4-121, describes the circumstances under which your SPS may list some of your Pell recipients more than once.

What to Do with the Student Payment Summary

Comparing school records to SPS

You should use your SPS to confirm that the Department has received ***and accepted*** student payment data for all the Pell recipients you have paid, up through the date in the upper right corner of the SPS. You start by comparing your institutional student records to your SPS to confirm that each of your Pell recipients appears at least once. If you find students missing, you need to report them to the Department **immediately**. Do not wait until the end of the reporting cycle, as this will not give you sufficient time to resolve your questions or any reporting errors before the final program deadline for submitting student-level data, which is September 30.

Students missing from SPS

You should account for each missing student in one of the following three categories:

1. You submitted the student's record to the Department, but it was rejected due to reporting errors—your IPS Batch Report

(2a) shows the number of rejected records for each of your batch submissions.

2. You submitted the student's record, but the Department did not receive it—your IPS Batch Report (1c) shows any discrepancies in the number of Vouchers you reported and the number received for each submission.

3. You have not yet submitted the student's record to the Department, either inadvertently or for other reasons.

You should review your institutional student records to verify that your payment to each of your Pell recipients agrees with the "Total Payment Amount" the Department has accepted, as shown on your SPS. ("Total Payment Amount" equals the sum of Payment Voucher items 6 and 7.) If you find a difference, you need either to report the revised payment amount(s) to the Department or correct your institutional records for the student.

You should use your Processed Payment Vouchers and your IPS Batch Report as the Department returns them to you to reconcile your institutional records. If you then use your SPS as you would your checking account monthly statement, you can verify that your records agree with the Department's or identify the additions and/or changes you need to report in your next submission. You report your additional Pell recipients or your payment amount changes through whatever medium you normally use (paper, RDE, EDE, or Floppy Disk Data Exchange). Don't forget to include a paper IPS with any paper Payment Vouchers you submit. Remember that you must report any changes in the Pell award no later than the end of the reporting period that immediately follows the reporting period in which the change occurred.

Special Conditions You Should Note

"W" verification status

The Summary Statistics page gives you a count of any student records with a verification status of "W" (Without documentation). As mentioned in Section Four of this chapter, you may not make more than one disbursement for a student selected for verification until the student supplies documentation to verify or correct the application data. Therefore, the Department will honor no more than one-half of the student's Scheduled Award if you report, or the Department assumes, a verification status of "W." You and the student must complete the verification process by the applicable deadline.

Must revise "W" status

As soon as you complete verification, you must submit an acceptable Payment Voucher to the Department, revising the student's verification status and amount(s) the Department accepted for payment. Please carefully review any student data on your SPS with a verification status of "W" and complete your reporting promptly. In early August, the Department will reduce the accepted payment to $0 for any

students whose verification status remains "W" and will make a corresponding reduction in your Pell authorization. After the verification deadline (August 30, 1996), the Department will reject any student documents submitted to which a "W" status applies.

Total payments to date: SPS vs. IPS

The first Summary page for your entire institutional system (at the end of your SPS) lists the "Total Payments to date to all Federal Pell Recipients per school records" (IPS Item 15) from your latest submission. (Under Recipient Data Exchange or Electronic Data Exchange, positions 17-25 of the trailer record correspond to IPS Item 15; under Floppy Disk Data Exchange, you use the Header/Trailer information screen to enter this figure.) Please compare your IPS (or equivalent) Total Payments to date, which is also referred to as Net Expenditures, to the "Total Payment Amount (Item 6 + Item 7)," summarized from your Processed Payment Vouchers shown on your SPS. Appendix 3, beginning on page 4-123, describes the steps you should take to account for the entire difference between these amounts to verify that your reporting to the Department reconciles. Differences for which you cannot account generally result from one of four conditions:

Common differences between SPS and IPS

1. The "Total Payments to date to Federal Pell Recipients per school records" you reported on your last IPS incorrectly reflected **only** the total payments to the students in that particular batch. In Item 15, you must report the total amount you have paid to **all** your Pell recipients, through the date you prepare your IPS, less any recoveries restored to your Pell account.

2. The "Total Payments to date to Federal Pell Recipients per school records" on your last IPS incorrectly included cents, exceeded your Pell authorization, or did not agree with your actual payments.

3. You accurately reported the "Total Payments to date to Federal Pell Recipients per school records" on your last IPS, but you have not yet reported all your student payment data changes and/or additional recipients.

4. The payment amount you originally reported to the Department exceeded the amounts the Department could accept, based on the other data you reported for the student, and the Department disallowed the excess. If the data on which the Department based the disallowance properly reflects the student's award information, **you must adjust your institutional records** to the correct payment amount and recover any excess from the student.

Resolving discrepancies

Appendix 3 also describes the steps you should take to confirm that your current institutional Pell payments agree with the student payment data you have reported. These steps should assist you in verifying that you have identified all discrepancies between the Department's records for your Pell recipients and your institutional records, so that you can submit any payment data changes or additional students you still need to report. If you find that any of these conditions apply to your institution, you need to resolve the inconsistencies promptly.

The Department provides the SPS to allow you time to review it and submit your payment data changes and additional recipients **(including any rejected student records)** as soon as possible. As mentioned earlier, you need to complete your reporting of all changes and new recipients no later than the end of the reporting period following the reporting period in which the change or addition occurs. You should report changes or additions that occur during the mandatory reporting period that ends August 15, 1996 on or before that date to assure that the September 30, 1996 reporting deadline does not adversely affect your payments to your students or your Pell authorization.

REQUESTING FUNDS

The reporting system described in this section enables the Department to track your need for Pell funds during the award year and to adjust your Pell authorization accordingly. The system ensures that federal funds do not remain at an institution when its students do not need them. When you request funds from the Department (for the Pell or campus-based programs), that request is handled by a different system, the ED Payment Management System (ED/PMS).

Automated Clearing House (ACH)

The Department's Division of Financial Management Services uses a payment system called the Automated Clearing House/Electronic Funds Transfer (ACH/EFT). The ACH/EFT is essentially a direct deposit system. Most postsecondary schools that participate in the SFA programs are now using the ACH/EFT. Because the request for funds is usually handled by each school's fiscal officer, we will not review the fund drawdown procedures in this chapter. If you are responsible for your school's fiscal office activities, you should refer to *The ED Payment Management System User's Manual*, prepared by the Financial Management Service, and to the current edition of the SFA *Blue Book*.

A second method for requesting funds from ED/PMS is through FEDWIRE. Under this method, requests for funds go directly to ED/PMS. Most state institutions use FEDWIRE. See ED/PMS's *User's Manual* mentioned above for further details.

Appendix 1
ITEM-BY-ITEM DESCRIPTION OF YOUR STUDENT PAYMENT SUMMARY[15]

APPENDIX 1

UPPER LEFT HAND CORNER OF YOUR SPS:

CENTRAL ADMINISTRATIVE OFFICE (REPORTING CAMPUS). Your school's Pell Institution Number, name, and address.

REPORT FOR STUDENTS ATTENDING. The Pell Institution Number, name, and address of the school actually attended by the students listed. If your institutional system has branch campuses with unique Pell Institution Numbers, the Department produces a separate section for each Attended Campus.

STUDENT INFORMATION:

STUDENT NAME. The student's full name, as reported to the CPS for the Transaction Number shown.

SOC SEC NO. The student's **current** Social Security Number, as reported to the CPS for the Transaction Number shown.

DATE OF BIRTH. The student's date of birth (MMDDYY), as reported to the CPS for the Transaction Number shown.

TRANS NO. The two-digit Transaction Number assigned by the CPS to identify uniquely a particular record for a student. This number indicates the specific SAR you submitted to the Department and on which you based payment.

EXPECTED FAMILY CONTRIBUTION (EFC). The student's eligibility for a Pell, as determined by the CPS for the Transaction Number shown. **This EFC appears on both the front and back of the paper Payment Voucher (Part 3 of the SAR).** The Department uses this EFC in automated data exchange processing (RDE, EDE, and Floppy Disk Data Exchange) to match your student payment records with the corresponding eligible applicant record. Unless you indicate that you based payment on the Secondary EFC, the Department uses this EFC for payment purposes. An asterisk appears to the right of the EFC for students selected for verification by the CPS. A "C" will appear next to the EFC for problems the school must resolve with the student—see Chapter Two for more information. (See Secondary EFC on the next page for further information on Primary and Secondary EFC's.)

[15]At the time this handbook went to print, the 1995-96 SPS was still being developed. Therefore, the final version of the SPS may differ from the description provided in this Appendix.

APPENDIX 1

PROCESSED PAYMENT VOUCHER/RECORD INFORMATION:

The numbers in parentheses correspond to the item numbers on the paper Processed Payment Voucher.

(10-6) SECONDARY EFC. The Secondary EFC,[16] if any, calculated for the student by the CPS. The application processing system establishes Primary and Secondary EFCs as follows:

Primary EFC—If the applicant qualifies for the simplified formula, the Primary EFC reflects this calculation; if not, the Primary EFC reflects the regular formula calculation.

Secondary EFC[16]—If the applicant qualifies for the simplified formula but also provides complete data, the Secondary EFC reflects the regular formula calculation; otherwise, the Secondary EFC remains blank.

The Primary EFC and the Secondary EFC (if any) appear at the top of both the Student's Use Box on Part 1 of the SAR and the School Use Only box on Part 2 of the SAR. The Primary EFC appears on the front of parts 1 and 2 of the SAR and on both the front and back of Part 3 of the SAR **in all cases except one:** If the Primary EFC makes the applicant ineligible for a Pell, but the Secondary EFC makes the applicant eligible, the Secondary EFC appears on the front and back of Part 3 (and on the front of parts 1 and 2). For these students, you use the EFC printed on the Payment Voucher in, and directly above, the "Make no marks in this box" block; do not indicate you based payment on the Secondary EFC.

(10) EFC USED. The EFC you reported as the basis for the student's award. A "6" indicates you based the award on the student's Secondary EFC,[16] that is, on the EFC shown in Item 10 on the Payment Voucher. A "1" indicates you previously reported you used the Secondary EFC and then updated the record to revert to the usual EFC, that is, the EFC shown in, and directly above, the "Make no marks in this box" block and on the front of the paper Payment Voucher.

(2) ACAD CAL. The student's academic calendar.

(3) COST OF ATTENDANCE. The student's COA for a full academic year. Standard cost letters A through J will precede the cost if you used one of the standard costs you established on your IPS.

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[16]If the family's Adjusted Gross Income does not exceed the maximum income that may be earned to claim the maximum federal earned income tax credit (approximately $12,000), and an IRS Form 1040 will not be filed, then the family qualifies for an automatic zero EFC and no Secondary EFC will be calculated.

(4) VERIFICATION STATUS. The current status of verification of the student's application data. For each active student record shown with a verification status of "W" (Without documentation), you must submit an update to the student's record to indicate you completed the verification process. Until the Department receives and accepts your update, the Department will honor only up to one-half of the student's Scheduled Award. The Department must reduce the student's award to $0 if you do not report an acceptable verification status code.

(5A) ENROLLMENT STATUS. The student's enrollment status (full time, half time, three-quarter time, less-than-half time, other) if enrolled in programs measured by terms—otherwise, blank.

(5B) HOURS/CREDITS EXPECTED TO COMPLETE. The number of hours/credits you expect the student to complete in all payment periods in this award year if the student is enrolled in a program that measures progress in clock hours or measures progress in credit hours without terms—otherwise, blank.

(5C) HOURS/CREDITS IN PROGRAM'S ACADEMIC YEAR. The number of hours/credits in the school academic year for the program in which the student is enrolled, if the program measures progress in clock hours or measures progress in credit hours without terms—otherwise, blank.

(5D) WEEKS ENROLLED IN THIS AWARD YEAR. The number of weeks of instructional time you expect the student to complete in all payment periods in this award year if the student is enrolled in a program that measures progress in clock hours or measures progress in credit hours without terms—otherwise, blank.

(5E) WEEKS IN PROGRAM'S ACADEMIC YEAR. The number of weeks of instructional time in the school academic year for the program in which the student is enrolled, if the program measures progress in clock hours or measures progress in credit hours without terms—otherwise, blank.

(5F) PAYMENT METHODOLOGY. The formula used to calculate the student's Pell award.

(11) INCARCERATED STATUS AND STATE. ***Leave blank*** unless the student is—

- incarcerated, ***and***
- is not incarcerated in a state or federal facility.

Code

Y Yes, the student is incarcerated but is eligible to receive a Pell.

N No, the student previously reported as incarcerated is not or is no longer incarcerated.

(6 + 7) TOTAL PAYMENT AMOUNT. The total payment for this award year that the Department accepted for the student. This amount equals the sum of Amount Paid to Date (Item 6) and Remaining Amount to be Paid (Item 7). If the Total Payment Amount shown disagrees with the actual, **valid** Pell payments you will make to the student, you must provide corrected student payment amount(s) to the Department. A blank Total Payment Amount indicates an inactive payment record (see **ACT** on page 4-117).

REC STA. The current status of the student's data in the Department's records, which corresponds to the categories in Section 2 of your IPS Batch Reports. The status codes are—

E—Rejected with errors; record retained in the Federal Pell Grant files (2a on your IPS Batch Report). You must correct the errors and resubmit them to the Department.

A—Accepted with assumptions; record retained in the Federal Pell Grant files (2b on your IPS Batch Report). You must review these carefully and resubmit updates if the Department's assumptions do not agree with the student's award information.

I— Accepted as reported by the institution; record retained in the Federal Pell Grant files (2d on your IPS Batch Report). You need to submit updates **only** if the student's award data changes, or you need to resolve a verification status code of "W."

The Department provides the record status code in position 80 of Processed Payment Vouchers returned to you on tape or electronically; for Floppy Disk Data Exchange users, it appears on the Record Status query screen. Each status also corresponds to a specific comment, which is printed on paper Processed Payment Vouchers. **IMPORTANT:** Your SPS does ***not*** include student payment records rejected in entirety (Record Status "R") or records you submitted that duplicated payment data already accepted (Record Status "D"). You must correctly submit payment data for rejected records to receive credit for your payments to these students in your Pell authorization.

BATCH NO. The number assigned to the batch of Vouchers for your most recent retained submission of this record for the student. The Department provides this number in positions 107-114 for records returned to you by tape or electronically; for Floppy Disk Data Exchange users, this number appears on the Processed Payment Data screens. The Batch Number is also printed on your IPS Batch Report and as the first comment on each Processed Payment Voucher.

ED USE ONLY:

SAR RECORD ID. The student's unique identifier in the Application and Pell Systems Division's payment records. The SAR Record ID consists of—

- *Original Social Security Number*—the Social Security Number reported on the student's original application for the award year;
- *Original Name Code*—the first two letters of the student's last name, as reported on the student's original application; and
- *Transaction Number*—sequentially assigned by the CPS to uniquely identify a particular applicant record for a student

SEG NO. Segment Number, as assigned to processed payment records to identify uniquely a particular payment data record for a student. When you submit changes to previously reported data, the Department uses this number to find the corresponding student record in its payment records. The segment number is given in positions 116-117 in processed records returned to you by tape or electronically; for Floppy Disk Data Exchange users, this number appears on the Processed Payment Data screen. On paper Processed Payment Vouchers, the Segment Number is printed as the first two numbers in the "Make no marks in this box" block on the back (Side 2).

ACT. The status of the student's payment data relative to your Pell account. Current (active) payment records appear with a "<"; inactive records have nothing in this column. If you receive your SPS on tape, inactive payment records contain an "I" in position 320. The Department honors payment on only one record per student for each attended campus. If your institutional system has branch campuses with unique Pell Institution Numbers, and a student has attended more than one of these campuses, you must review ***all*** of the student's active payment records to verify that you have not overpaid the student. If the sum of "Total Payment Amount" across all of the campuses the student attended exceeds the Pell amount the student should have received, you must submit corrections reducing the student's payments for each applicable attended campus.

APPENDIX 1

SUMMARY DATA:

The Department provides summary data pages at the end of your SPS. Pages 2 and 3 of this summary data are produced for each attended campus you reported for your students; Page 1 of the summary data is provided for the Central Administrative Office (Reporting Campus) only.

SUMMARY DATA - PAGE 1:

INFORMATION REPORTED ON YOUR LATEST INSTITUTIONAL PAYMENT SUMMARY

DATED XX/XX/XX. Ending Date of the period corresponding to the amount in Item 15. The date corresponds to Item 16 on your paper IPS or to positions 20-25 in the header record of tape or electronic submissions. Floppy Disk Data Exchange users enter this field in the Header/Trailer information screen.

TOTAL PAYMENTS TO DATE TO FEDERAL PELL RECIPIENTS PER SCHOOL RECORDS (ITEM 15). This should represent your total payments, less any recoveries you have restored to your Pell account, for ***all*** your Pell recipients through the Item 16 date shown on the line directly above. Under Recipient and Electronic Data Exchange, positions 17-25 of the trailer record correspond to IPS Item 15; under Floppy Disk Data Exchange, you use the Header/Trailer information screen to enter this figure. If you misreported this amount on your last report to the Department, you need to report your corrected "Total Payments to Date" figure to the Department as soon as possible.

INFORMATION SUMMARIZED FROM PROCESSED PAYMENT VOUCHERS/RECORDS ON THIS REPORT

TOTAL AMOUNT PAID TO DATE (ITEM 6). Total amount the Department has accepted to date for Amount Paid to Date (Item 6) for the Payment Vouchers/Processed Payment Vouchers you have submitted.

TOTAL REMAINING AMOUNT TO BE PAID (ITEM 7). Total amount the Department has accepted to date for Remaining Amount to be Paid (Item 7) for the Payment Vouchers/Processed Payment Vouchers you submitted.

TOTAL PAYMENT AMOUNT (ITEM 6 + ITEM 7). Total student payments the Department has credited to your institution for the students you reported and the Department has accepted, that is, those who appear on this report. This total, less any payments you reported in Item 7 but had not made through the date you indicated in Item 16, will equal the Total Payments to date to Pell Recipients per school records (IPS Item 15 or equivalent) listed above. If you have reported all your Pell recipients and

payment data changes, this total should also agree with your institutional records through that same date. You must resolve any discrepancies and submit your changes to the Department.

TOTAL UNDUPLICATED RECIPIENTS. The number of individual students (unique combination of original Social Security Number and original name code) on this report. The Department uses this number to calculate your administrative allowance. For single campus institutions, this should agree with your total number of Pell recipients. If it does not, you need to resolve the discrepancy.

TOTAL ACTIVE STUDENT RECORDS. The number of current payment records the Department has for your students that it has credited toward your Pell account. You should have at least one current payment record for **each** of your Pell recipients. If your institutional system has branch campuses with unique Pell Institution Numbers, and this count exceeds the number of unduplicated recipients above, it indicates that some students have attended more than one of your campuses. You must carefully review your payments to these students to confirm that you have not overpaid them.

TOTAL RECORDS ON THIS REPORT. The total number of student records, current and inactive, on this report.

TOTAL NUMBER OF ATTENDED CAMPUSES. The number of different attended campuses you have reported for your students. If all your students have the same Reporting and Attended Campus, a zero appears here.

INFORMATION SUMMARIZED FROM ITEM 2 OF YOUR IPS BATCH REPORTS

These counts provide the cumulative total for each listed item from all of the IPS Batch Reports sent to you to date for the award year. The Department provides these counts only for your information to give you a record of your total activity and to highlight the number of records rejected, accepted with assumptions, duplicated, and accepted. Do ***not*** try to balance these figures with the individual student detailed listing of your SPS.

SUMMARY DATA-PAGE 2:

EXPECTED FAMILY CONTRIBUTION AND PAYMENT AMOUNT STATISTICS. This summarizes your current payment records by EFC range. The Department also provides the average amount paid each student within each range, the overall average EFC, and the average payment amount.

APPENDIX 1

COST OF ATTENDANCE STATISTICS. This summarizes your current payment records by Cost of Attendance range. The Department also provides your overall average Cost of Attendance.

VERIFICATION STATUS STATISTICS. This summarizes your current payment records according to each of the verification status codes. You use the "W" (Without documentation) count to determine the number of students for whom you must still report completion of the verification process to the Department.

INFORMATION SUMMARIZED FROM PROCESSED PAYMENT VOUCHERS/RECORDS. This provides the totals for Amount Paid to Date (Item 6), Remaining Amount to be Paid (Item 7), and Total Payment Amount (Item 6 + Item 7) for the current payment records at the attended campus shown in the upper left corner. These figures appear only on Page 1 for single campus systems.

FREQUENCY DISTRIBUTION FOR STANDARD COST USAGE. This summarizes your current payment records by the Standard Cost(s) of Attendance you have reported on your IPS. The Department lists both the alpha character and the corresponding dollar value next to it.

FAA EFC ADJUSTMENT STATISTICS. This summarizes your current payment records by EFC used for payment. 1—Orig. EFC indicates records paid based on the Primary EFC after a Secondary EFC was previously reported. 6—Secondary EFC Used indicates payment was made based on a Secondary EFC.

SUMMARY DATA - PAGE 3:

RECIPIENT COMMENTS SUMMARY STATISTICS. This cumulative summary provides a capsule picture of the number of error and assumption comments the Department used in processing your student payment data to date. You should use these counts to identify any recurring problems you need to correct in your reporting.

Appendix 2
WHAT CAUSES A STUDENT TO APPEAR ON YOUR SPS MORE THAN ONCE

Your SPS will list a student more than once for a single attended campus when you report that student to the Department using a different SAR or ISIR, or when you change the type of academic calendar. The Department honors payment on only one record per student for each attended campus. As mentioned in Appendix 1, current (active) payment records appear with a "<" on the far right of the student entry in your detailed listing. You should carefully review any student who appears more than once to confirm that the current payment record for the student in the Department's records agrees with the SAR or ISIR on which you based payment.

The Department establishes another record for a student, and reduces the payments accepted on the prior record to $0, in two cases:

1. **Transaction Number.** The two-digit Transaction Number assigned by the CPS uniquely identifies a particular applicant record for the student. It indicates the specific SAR or ISIR on which you based payment to the student. Each Transaction Number you submit for a student will create a new record. The **last** transaction you sent that the Department accepted always becomes the current record for the student, even if you reported a higher Transaction Number earlier.

   Example:

   Transaction 01 Original application—rejected

   Transaction 02 Result of applicant corrections—EFC of 310

   Transaction 03 Result of applicant corrections—EFC of 1507

   The student turns in Transaction Number 03, and you report it to the Department. You later determine that the student has Transaction Number 02, which meets the definition of a valid SAR. You report Transaction Number 02 to the Department, which is accepted; the Department **automatically** reduces the payment amounts on Transaction Number 03 to $0.

APPENDIX 2

2. **Academic Calendar.** The Department establishes a new current record for a student when you report any of the following academic calendar changes:

	From	To
a.	Standard term academic calendar (quarter, semester, trimester)	Clock hour or credit hour (nonstandard term)
b.	Clock hour or credit hour	Standard term academic calendar (quarter, semester, trimester)
c.	Credit hour (nonstandard term)	Clock hour academic calendar
d.	Clock hour academic calendar	Credit hour (nonstandard term)

Appendix 3
RECONCILIATION OF STUDENT PAYMENT DATA TO (IPS) NET EXPENDITURES USING YOUR STUDENT PAYMENT SUMMARY

A. Reconciliation of your student payment data to your latest IPS

Example

IPS dated	12/01/95
Total Payments to date to Federal Pell Recipients per school records (IPS Item 15 or equivalent)	$12,414
Total Payment Amount (Item 6 + Item 7)	14,735
Total Amount Paid to Date (Item 6)	8,238
Total Remaining to be Paid (Item 7)	6,497

Step 1. From your institutional records, determine the payments you had not yet made through the date of your last IPS. **Example:** $2,700 remained to be paid as of the 12/01/95 posting date in your general ledger.

Step 2. Deduct result of Step 1 from the Total Payment Amount on your SPS. **Example:** $14,735 - $2,700 = $12,035.

Step 3. Compare result in Step 2 to the Total Payments to Date to Pell Recipients per school records (IPS Item 15 or equivalent). **Example:** Compare $12,414 to $12,035; the difference is $379.

Step 4. Account for any discrepancy in the following categories:

a. Payments you included in your Net Expenditures (IPS Item 15 or equivalent) for recipients you have not yet reported;

b. Payments you included in your Net Expenditures for recipients you reported but the Department rejected;

c. Payments you included in your Net Expenditures but the Department disallowed;

d. Payments you included in your student payment data but omitted from your Net Expenditures; and

e. Recoveries you have restored to your Pell account but have not reported to the Department as changes to your student payment data.

If you cannot reconcile your student payments to your Net Expenditures in this manner, you may have misreported your Net Expenditures. You need to report these corrections promptly.

APPENDIX 3

Please keep in mind that—

- Your Total Payments to Date to all Federal Pell Recipients per school records (IPS Item 15 or equivalent) **should never exceed** your Pell authorization—you cannot pay more Pell funds than the Department has authorized.
- Your Total Payments to Date (Net Expenditures) should equal or exceed the total Amount Paid to Date (Item 6) listed on your SPS, unless you have already recovered some of those payments.
- Your Net Expenditures should not exceed the Total Payment Amount (Item 6 + Item 7) listed on your SPS. If this occurs, you either need to report additional recipients and payment amount adjustments ***or*** lower your Net Expenditures.
- Your Net Expenditures should equal the Total Payment Amount (Item 6 + Item 7) after you make all payments and report all payment adjustments to the Department. If you identify major discrepancies, you need to correct your reporting errors now so that your next SPS will reflect more complete and reconcilable data.

B. Reconciliation of your Pell student payments to your institutional records

Step 1. Take the reconciled student payment total from Step 4 on the preceding page and add to that figure any payments you have made since the date of your last IPS.

Step 2. Compare the result from Step 1 to your institutional records.

Step 3. Account for any discrepancy in the same manner as described in Step 4 on the preceding page.

Step 4. Adjust your institutional records and/or report your new recipients and payment amount adjustments to the Department to reconcile your Net Expenditures, student payments, and institutional records.

1995-96 Payment Schedules

We have enclosed "Dear Colleague" letter P-95-1, dated January 1995, which contains the 1995-96 Federal Pell Grant Program Payment and Disbursement Schedules.

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-_____

JANUARY 1995

P-95-1

Summary: This letter contains the 1995-96 Federal Pell Grant Program payment and disbursement schedules.

FEDERAL STUDENT FINANCIAL AID HANDBOOK REFERENCE: Please refer to Chapter 4 of the 1995-96 Handbook for further assistance.

Dear Colleague:

Enclosed are the payment and disbursement schedules for determining Federal Pell Grant awards during the 1995-96 award year -- July 1, 1995, to June 30, 1996. The 1995-96 schedules consist of four separate tables for calculating scheduled awards and disbursements for full-time, three-quarter-time, half-time, and less-than-half-time students.

The Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Act, 1995 (Public Law 103-333) sets the amount of the maximum Pell Grant award at $2,340 for 1995-96. The appropriations act allocates approximately $6.2 billion for Federal Pell Grant awards in 1995-96.

We appreciate your continued support in making Federal Pell Grant assistance available to students. If you have any questions regarding the payment and disbursement schedules or the calculation of awards, please do not hesitate to contact Steve Carter at (202)708-7888.

Sincerely,

William L. Moran
Director, Student Financial Assistance Programs

Enclosure

Full Time

Federal Pell Grant Program

Payment Schedule for Determining
Full-Time Scheduled Awards in the 1995-96 Award Period

Cost of Education	Expected Family Contribution																							
	0 To 0	1 To 100	101 To 200	201 To 300	301 To 400	401 To 500	501 To 600	601 To 700	701 To 800	801 To 900	901 To 1000	1001 To 1100	1101 To 1200	1201 To 1300	1301 To 1400	1401 To 1500	1501 To 1600	1601 To 1700	1701 To 1800	1801 To 1900	1901 To 2000	2001 To 2100	2101 To 2140	2141 To 9999
0 - 99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
100 - 199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
200 - 299	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
300 - 399	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
400 - 499	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
500 - 599	550	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
600 - 699	650	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
700 - 799	750	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
800 - 899	850	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
900 - 999	950	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1000 - 1099	1050	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1100 - 1199	1150	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0
1200 - 1299	1250	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0
1300 - 1399	1350	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0	0
1400 - 1499	1450	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0	0
1500 - 1599	1550	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0	0
1600 - 1699	1650	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0	0
1700 - 1799	1750	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0	0
1800 - 1899	1850	1800	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0	0
1900 - 1999	1950	1900	1800	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0	0
2000 - 2099	2050	2000	1900	1800	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0	0
2100 - 2199	2150	2100	2000	1900	1800	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0	0
2200 - 2299	2250	2200	2100	2000	1900	1800	1700	1600	1500	1400	1300	1200	1100	1000	900	800	700	600	500	400	400	400	0	0
2300 - 2339	2320	2270	2170	2070	1970	1870	1770	1670	1570	1470	1370	1270	1170	1070	970	870	770	670	570	470	400	400	400	0
2340 - 99999	2340	2290	2190	2090	1990	1890	1790	1690	1590	1490	1390	1290	1190	1090	990	890	790	690	590	490	400	400	400	0

3/4 Time

Federal Pell Grant Program

Disbursement Schedule for Determining
Three-Quarter-Time Annual Awards in the 1995-96 Award Period

Cost of Education	Expected Family Contribution																							
	0 To 0	1 To 100	101 To 200	201 To 300	301 To 400	401 To 500	501 To 600	601 To 700	701 To 800	801 To 900	901 To 1000	1001 To 1100	1101 To 1200	1201 To 1300	1301 To 1400	1401 To 1500	1501 To 1600	1601 To 1700	1701 To 1800	1801 To 1900	1901 To 2000	2001 To 2100	2101 To 2140	2141 To 9999
0 - 99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
100 - 199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
200 - 299	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
300 - 399	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
400 - 499	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
500 - 599	413	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
600 - 699	488	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
700 - 799	563	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
800 - 899	638	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
900 - 999	713	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1000 - 1099	788	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1100 - 1199	863	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1200 - 1299	938	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0
1300 - 1399	1013	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0
1400 - 1499	1088	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0	0
1500 - 1599	1163	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0	0
1600 - 1699	1238	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0	0
1700 - 1799	1313	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0	0
1800 - 1899	1388	1350	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0	0
1900 - 1999	1463	1425	1350	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0	0
2000 - 2099	1538	1500	1425	1350	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0	0
2100 - 2199	1613	1575	1500	1425	1350	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0	0
2200 - 2299	1688	1650	1575	1500	1425	1350	1275	1200	1125	1050	975	900	825	750	675	600	525	450	400	400	400	0	0	0
2300 - 2339	1740	1703	1628	1553	1478	1403	1328	1253	1178	1103	1028	953	878	803	728	653	578	503	428	400	400	400	0	0
2340 - 99999	1755	1718	1643	1568	1493	1418	1343	1268	1193	1118	1043	968	893	818	743	668	593	518	443	400	400	400	0	0

1/2 Time

Federal Pell Grant Program

Disbursement Schedule for Determining Half-Time Annual Awards in the 1995-96 Award Period

Cost of Education	Expected Family Contribution																							
	0 To 0	1 To 100	101 To 200	201 To 300	301 To 400	401 To 500	501 To 600	601 To 700	701 To 800	801 To 900	901 To 1000	1001 To 1100	1101 To 1200	1201 To 1300	1301 To 1400	1401 To 1500	1501 To 1600	1601 To 1700	1701 To 1800	1801 To 1900	1901 To 2000	2001 To 2100	2101 To 2140	2141 To 9999
0 - 99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
100 - 199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
200 - 299	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
300 - 399	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
400 - 499	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
500 - 599	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
600 - 699	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
700 - 799	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
800 - 899	425	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
900 - 999	475	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1000 - 1099	525	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1100 - 1199	575	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1200 - 1299	625	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1300 - 1399	675	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0
1400 - 1499	725	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0
1500 - 1599	775	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0
1600 - 1699	825	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0
1700 - 1799	875	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0	0
1800 - 1899	925	900	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0	0
1900 - 1999	975	950	900	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0	0
2000 - 2099	1025	1000	950	900	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0	0
2100 - 2199	1075	1050	1000	950	900	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0	0
2200 - 2299	1125	1100	1050	1000	950	900	850	800	750	700	650	600	550	500	450	400	400	400	400	400	0	0	0	0
2300 - 2339	1160	1135	1085	1035	985	935	885	835	785	735	685	635	585	535	485	435	400	400	400	400	0	0	0	0
2340 - 99999	1170	1145	1095	1045	995	945	895	845	795	745	695	645	595	545	495	445	400	400	400	400	0	0	0	0

< 1/2 Time

Federal Pell Grant Program

Disbursement Schedule for Determining
Less-Than-Half-Time Annual Awards in the 1995-96 Award Period

Cost of Education	Expected Family Contribution																						
	0 To 0	1 To 100	101 To 200	201 To 300	301 To 400	401 To 500	501 To 600	601 To 700	701 To 800	801 To 900	901 To 1000	1001 To 1100	1101 To 1200	1201 To 1300	1301 To 1400	1401 To 1500	1501 To 1600	1601 To 1700	1701 To 1800	1801 To 1900	1901 To 2000	2001 To 2100	2101 To 2140	2141 To 9999
0 - 99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
100 - 199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
200 - 299	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
300 - 399	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
400 - 499	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
500 - 599	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
600 - 699	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
700 - 799	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
800 - 899	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
900 - 999	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1000 - 1099	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1100 - 1199	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1200 - 1299	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1300 - 1399	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1400 - 1499	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1500 - 1599	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1600 - 1699	413	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1700 - 1799	438	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0	0
1800 - 1899	463	450	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0	0
1900 - 1999	488	475	450	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0	0
2000 - 2099	513	500	475	450	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0	0
2100 - 2199	538	525	500	475	450	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0	0
2200 - 2299	563	550	525	500	475	450	425	400	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0
2300 - 2339	580	568	543	518	493	468	443	418	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0
2340 - 99999	585	573	548	523	498	473	448	423	400	400	400	400	400	400	400	400	0	0	0	0	0	0	0	0

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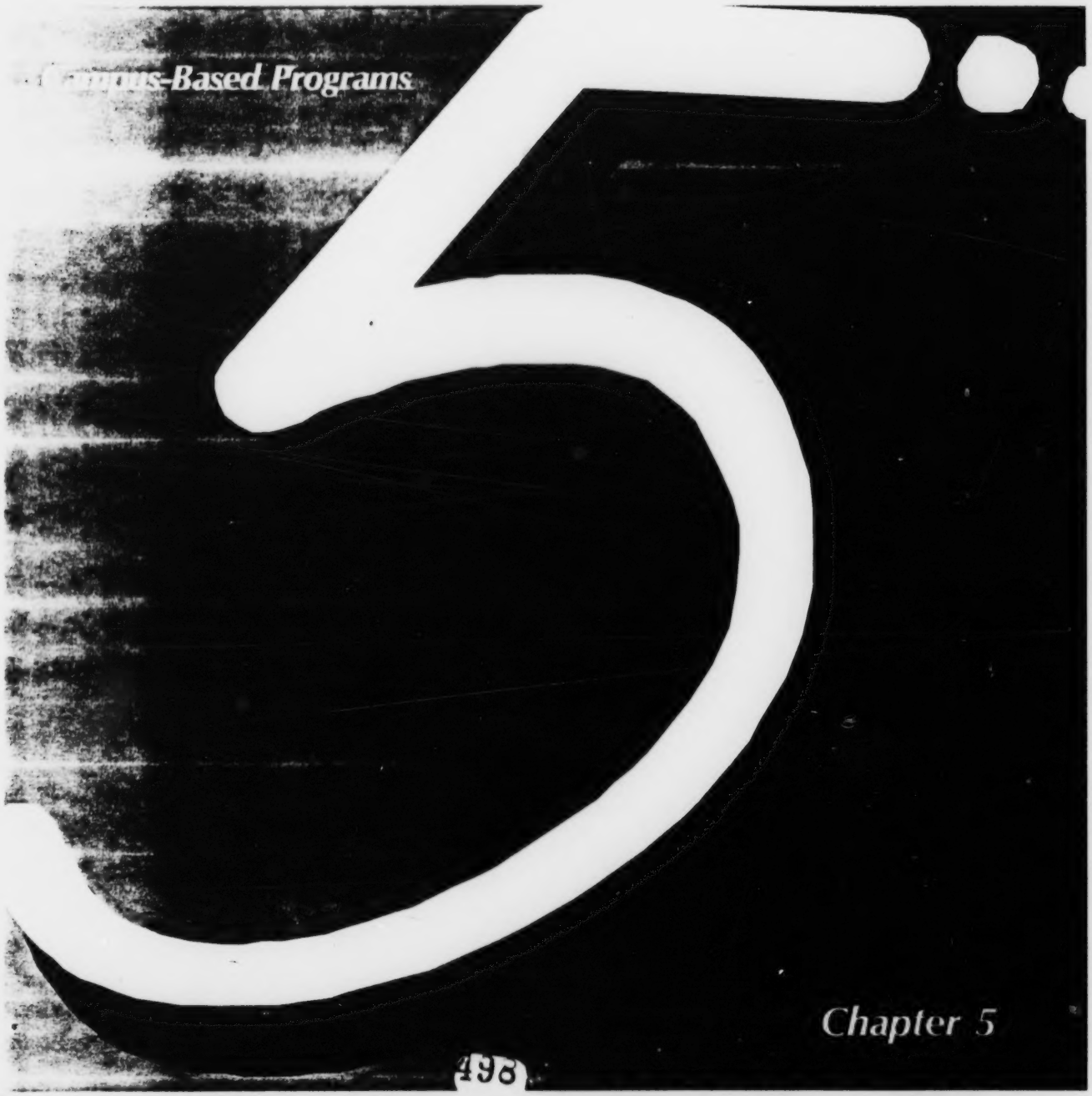
The Federal Student Financial Aid Handbook 1995-96



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INTRODUCTION

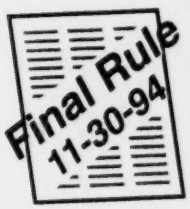
The Federal Perkins Loan Program, Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and Federal Work-Study (FWS) Program are called "campus-based" programs because each school is responsible for administering them on its own campus. A school applies for and receives program funds directly from the U.S. Department of Education by submitting an application, the Fiscal Operations Report and Application to Participate (FISAP), each award year (see page 5-4). The school's financial aid administrator is responsible for ensuring that eligible students at the school receive program funds in accordance with the provisions of the law, the regulations, the Program Participation Agreement signed by the Secretary of Education and the school's chief administrative officer, and other criteria ED may establish.

CAMPUS-BASED PROGRAMS

Federal Perkins Loan Program (formerly National Direct Student Loan Program)	**Federal Work-Study (FWS) Program** (includes Job Location and Development Program)	**Federal Supplemental Educational Opportunity Grant (FSEOG) Program**

This chapter covers provisions common to the Federal Perkins Loan, FWS, and FSEOG programs. Chapters Six through Eight discuss these programs individually. The Federal Perkins Loan Program provides low-interest, long-term loans to help needy undergraduate and graduate students. The FWS Program gives undergraduate and graduate students the chance to work part-time and encourages community service employment. The FSEOG Program provides grants to undergraduates who demonstrate exceptional financial need. A school may use part of its FWS funds for the Job Location and Development (JLD) Program to locate and develop jobs, including community service jobs, for currently enrolled students. JLD is discussed in Chapter Seven, Section Six. An eligible school that meets the definition of "work-college" may also use its FWS and/or Perkins Loan allocation to meet the cost of a Work-Colleges Program, which is discussed in the Introduction to Chapter Seven.

FINAL RULE, NOVEMBER 30, 1994



A Final Rule amending the campus-based programs regulations was published in the **Federal Register** on November 30, 1994 and is effective July 1, 1995. The Final Rule incorporates the provisions of the Higher Education Amendments of 1992 (P.L. 102-325) and the Higher Education Technical Amendments of 1993 (P.L. 103-208). The Final Rule also incorporates provisions of the National and Community Service Act of 1990 (P.L. 101-610), the Crime Control Act of 1990 (P.L. 101-647), the Improving America's Schools Act of 1994 (P.L. 103-382), and the Bankruptcy Reform Act of 1994 (P.L. 103-394). The preamble to the November 30, 1994 Final Rule includes a discussion of the substantive changes to the Proposed Rule published on June 22, 1994, as well as regulatory interpretations necessary to implement the new statutory provisions.

Many of the statutory provisions were self-implementing and superseded the regulations that were in effect at the time of the passage of the various statutes referenced above. Information and guidance were provided to schools on those self-implementing statutory provisions in various "Dear Colleague" letters and other policy documents.

The requirements in the Final Rule that affect only one campus-based program are discussed in the appropriate chapters of this *Handbook*. The requirements that affect more than one campus-based program and were self-implementing statutory provisions already in effect are discussed later in the appropriate sections of this chapter. The new requirements that are effective only with the Final Rule and apply to more than one campus-based program are as follows:

- Under certain conditions, a student who drops out before receiving his or her Perkins Loan or FSEOG funds can receive a payment. The conditions for making a late disbursement are described in Sections 674.16 and 676.16 of the November 30, 1994 Final Rule and in Section One of this chapter.

New overaward thresholds

- Statutory provisions under the Higher Education Amendments of 1992 provided for a $300 overaward threshold only for FWS. The Perkins Loan and FSEOG thresholds were $200 each. In order to reduce the administrative burden for schools, ED now provides a uniform $300 overaward threshold for each campus-based programs when a student receives additional resources after campus-based aid has been awarded. The new uniform $300 overaward threshold is described in Sections 674.14, 675.14, and 676.14 of the Final Rule and in Section Two of this chapter.

FINAL RULE, DECEMBER 1, 1994

Cash management regulations

The General Provisions Final Rule published in the **Federal Register** on December 1, 1994 provides uniform cash management rules for all SFA programs. The provisions of the Final Rule, as they affect all SFA programs, are discussed in this handbook in Chapter Three, Section Three. The following provisions affect the campus-based programs and are effective beginning July 1, 1995:

Notification of expected SFA award

- A school must notify a student or parent of the amount of funds the student can expect to receive from SFA programs and of how and when those funds will be paid.

EFT transfer

- A school may choose to pay a student by electronic funds transfer (EFT) to the bank account designated by the student or parent, as applicable; however, the school must obtain an authorization from the student or parent to disburse by EFT.

Early payment of a Perkins Loan or FSEOG

- The earliest a school may *pay directly or credit the account* of an enrolled student is *10 days* before the first day of a payment period or period of enrollment; this provision is included in Section 668.165(c). A school may no longer credit the account of an enrolled student up to 3 weeks before the first day of classes.

Allowable charges when crediting a student's account

- When a school disburses SFA funds by crediting a student's account, the school may assess only the following "allowable charges": (1) charges for tuition and fees; (2) charges for room and/or board if the student contracts with the school for room and/or board; (3) if the school obtains the permission of the student or parent, other cost-of-attendance charges included in the HEA (refer to the discussion in Chapter Three, Section Three).

Rules for maintaining SFA program funds

- The Final Rule also includes new provisions that apply to bank accounts containing SFA funds, such as the criteria for determining whether a school must keep SFA program funds in an interest-bearing account, and the criteria for requiring some schools to keep SFA funds in a separate bank account that contains no other funds. A detailed discussion of the new provisions is in Chapter Three, Section Three.

PROGRAM PARTICIPATION AGREEMENT

School must sign agreement with ED

A school that wants to participate in any SFA program must sign a Program Participation Agreement with the Secretary. (For more information on this Agreement, see Chapter Three, Section Two.) The Agreement must be signed by the school official legally authorized to assume, on the school's behalf, the Agreement's obligations.

For all of the programs, the Agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and must administer each program in accordance with the Higher Education Act of 1965, as amended, and the Student Assistance General Provisions regulations. Requirements under the General Provisions regulations are discussed in Chapter Three of this *Handbook*. Each one of the campus-based programs has additional requirements under the Program Participation Agreement that are specific to the individual program; these requirements are found in Sections 674.8, 675.8, and 676.8 of the regulations for the campus-based programs and in the Higher Education Act of 1965, as amended. Requirements that are specific to each program are discussed in the chapter for that program.

APPLICATION FOR FUNDS

School must apply annually

To receive funds from the U.S. Department of Education for one or more of the campus-based programs, a school must submit an application (*Fiscal Operations Report and Application to Participate—FISAP*) for each award year. All schools are required to file the FISAP data through the electronic FISAP process (*i.e.*, by mailing diskettes, transmitting data by modem, or mailing a magnetic tape). ED no longer provides or accepts paper FISAP forms. This means that a school must use the electronic FISAP process to be eligible to participate (*i.e.*, request/receive a funding allocation) in the campus-based programs.

Electronic FISAP is a requirement

July—FISAPs are sent to schools

In July each year, ED distributes the electronic FISAP packages and instructions for schools to use in applying for funds for the subsequent award year. The information reported must be accurate and verifiable. ED distributed the materials essential for the preparation and submission of the *1993-94 Fiscal Operations Report and 1995-96 Application to Participate* to schools in "Dear Colleague" letter CB-94-15, dated July 1994. The deadline for submitting (mailing or transmitting) the completed FISAP to ED by means of one of the electronic procedures listed above was October 1, 1994.

October 1—deadline for returning FISAP

Electronic FISAP packages to apply for 1996-97 campus-based funds—*1994-95 Fiscal Operations Report and 1996-97 Application to*

Participate—will be distributed to schools in July 1995. Proposed new data collection requirements for the 1996-97 *Application to Participate* were discussed in the "Dear Colleague" letter CB-95-2 dated January 1995.

Questions about FISAP

Questions concerning the preparation of the FISAP should be referred to ED's Student Financial Assistance Programs, Institutional Accounting and Financial Management Service, Institutional Financial Management Division, to the appropriate campus-based state representative. The representatives and their telephone numbers are listed in Chapter One, Section One, of this *Handbook*. Technical questions about the data entry or submission of a FISAP should be referred to an Electronic FISAP Administrator on (301) 565-0032 or (202) 708-6726.

ALLOCATION OF FUNDS

Allocations determined by statutory formulas

ED allocates funds directly to schools according to the statutory formulas. The allocation (or authorization) for each program is the amount of funding the school is authorized to receive from ED for an award year. This amount is based on the allocation formulas in the law, as well as on the funds appropriated by Congress for the program. However, a school will not receive an allocation that is in excess of its request.

Notice of final allocation in March

ED notifies schools of their final allocation for each campus-based program in late March each year by sending "The Official Notice of Funding." Later in the year, schools release any unexpended funds (a "Dear Colleague" letter will be issued in June 1995 about the release of unexpended 1994-95 allocations).

Penalty for returning more than 10% of funds

If a school returns more than 10 percent of its allocated funds for a given award year under any one of the three campus-based programs, ED will reduce the school's allocation for the second succeeding award year by the dollar amount returned unless this provision is waived by ED. For example, if the school returned more than 10 percent of its 1993-94 allocation, its 1995-96 allocation was reduced by the dollar amount returned for 1993-94. This provision is in Sections 674.4, 675.4, and 676.4 of the Final Rule published in the **Federal Register** on November 30, 1994.

ED may waive the penalty

ED may waive this provision for a specific school if it finds that enforcement would be contrary to the interests of the program. ED considers enforcement to be contrary to the interest of the program only if the school returned more than 10 percent of its allocation due to circumstances that are beyond the school's control and are not expected to recur.

School must request waiver in writing

To request a waiver, a school must submit a written explanation of the circumstances along with supporting documentation. The request for a waiver for the 1995-96 award year had to be postmarked by February 21, 1995 (see "Dear Colleague" Letter CB-95-1, January 1995).

ED reallocates unexpended funds

After schools release their unexpended allocations, ED reallocates the funds to schools that have met the criteria for receiving a supplemental allocation. Criteria for the distribution of these funds for each program are established in accordance with the Higher Education Act of 1965, as amended, as well as the regulations published December 1, 1987, as amended by the November 30, 1994 Final Rule (Sections 674.4, 675.4, and 676.4).

CERTIFICATIONS A SCHOOL MUST SUBMIT TO ED

Included in the FISAP package distributed to schools in July 1994 was ED Form 80-0013, "Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements" and Standard Form - LLL, "Disclosure of Lobbying Activities." To participate in the campus-based programs for the 1995-96 award year, a school's Chief Executive Officer, or another person who had the authority to sign on behalf of the entire school, was required to complete, sign, date, and submit (mail or transmit) to ED the above certification forms with the school's completed FISAP by October 1, 1994.

A detailed discussion of the certification requirements is in Chapter Three, Section Two of this *Handbook*.

SECTION ONE: SELECTING ELIGIBLE RECIPIENTS

GENERAL ELIGIBILITY REQUIREMENTS

All students receiving campus-based aid must meet the general eligibility requirements listed in Chapter Two, Section One. Additional student eligibility requirements under each campus-based program are discussed in Chapters Six through Eight.

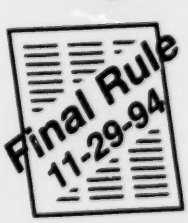
A student enrolled as an undergraduate, graduate, or professional student is eligible to receive assistance from the Federal Perkins Loan and FWS programs. Only undergraduate students are eligible to receive FSEOGs.

Written selection procedures

In choosing its aid recipients, a school must develop written selection procedures that are uniformly applied, and that are kept on file at the school. A school must make campus-based funds reasonably available—to the extent of available funds—to all eligible students who demonstrate financial need. (Two of the campus-based programs, the Federal Perkins Loan and FSEOG programs, require eligible students to have *exceptional* financial need.)

A school is reminded that no payment of a campus-based award can be made if the student did not receive an official EFC.

FURTHER UNDERGRADUATE DEGREE



Students who have earned a bachelor's or first professional degree are eligible to receive aid from the Federal Perkins Loan or FWS programs to pursue a *further* undergraduate degree. The Final Rule published in the **Federal Register** November 30, 1994 incorporates this provision of the law by revising the definition of "undergraduate student" in section 674.2 of the Federal Perkins Loan and section 675.2 of the FWS Program regulations (see Chapter Eight, Section One); therefore, students who have earned a bachelor's or first professional degree are *not* eligible to receive a FSEOG to pursue another undergraduate degree.

TEACHER CERTIFICATION PROGRAMS

Other professional credential programs required by borrower's state

A school may award a Federal Perkins Loan and/or FWS to a student who is enrolled or accepted for enrollment at an eligible school on at least a half-time basis in a program that is required by a state for a professional credential or certificate for employment as an elementary or secondary teacher in that state. This provision of the Higher Education Amendments of 1992 is effective retroactively to December 1, 1987 and is included in Section 668.7 of the General Provisions Final Rule published in the **Federal Register** on June 8, 1993. The provision is not intended to cover optional courses that a student may elect to take for professional recognition or advancement or additional optional courses recommended or required by the school. The school should document that the courses the student enrolls in are required by the state for teacher certification.

A student enrolled in a teacher certification program may be considered either an undergraduate or graduate student, depending on the school's policy. That decision is left to the school. Information about Federal Perkins Loan limits for students in teacher certification programs is included in Chapter Six, Section Two.

LESS-THAN-FULL-TIME AND INDEPENDENT STUDENTS

Exceptions to aid for less-than-full-time or independent students

If a school's FSEOG allocation, FWS grant, or Federal Perkins Loan federal capital contribution is directly or indirectly based in part on the financial need of less-than-full-time or independent students and if the need of all of these students exceeds 5 percent of the total need of all students at the school, then the school must *offer* to those students at least 5 percent of that allotment for FSEOG, 5 percent of that grant for FWS, or 5 percent of the dollar amount of the loans made under the Federal Perkins Loan Program.

Determining whether a school must offer at least 5 percent of the allotment, grant, or dollar amount of the loans for the 1995-96 award year to these students is based on eligible aid applicant data filed for the 1993-94 award year. For subsequent award years, this requirement will be governed by data filed for the award year that precedes the application year by two years.

Part-time students include correspondence students. To be considered enrolled in a program of correspondence study, the student must be enrolled in a degree seeking program and must have completed and submitted the first lesson. A school that offers funds to part-time students on the home campus must also offer funds to part-time students on its eligible branch campuses.

If any one of the following circumstances applies to a school, the school is not required to offer aid to less-than-full-time or independent students—

- under the Federal Perkins Loan Program if the school is not receiving any federal capital contribution for 1995-96 or
- under any campus-based program for which the school received a 1995-96 allocation of $5,000 or less.

If a school's allocation for the 1995-96 award year is *not* based on the need of less-than-full-time or independent students, the school *may* offer part of each allotment to those students, but is not required to do so.

SPECIAL SESSIONS

A student who enrolls as a regular student in an eligible program during a special session, such as summer school, may receive campus-based aid if he or she meets the same general eligibility requirements that apply to a student enrolled in a regular session (general eligibility requirements are discussed in Chapter Two and in the General Provisions regulations).

If a student is *not* enrolled during the special session, the student is not eligible to receive campus-based aid during the period of *nonenrollment*, except in the case of an FWS job, which may be awarded only if the student has attended the school during the preceding term or has been accepted by the school for the subsequent term (refer to Chapter Seven, Section Four, under "FWS Employment During Periods of Nonenrollment.")

LATE PAYMENT TO A STUDENT WHO DROPS OUT

Under certain conditions, a student who drops out before receiving his or her funds from the Federal Perkins Loan or FSEOG program can receive a payment. The conditions for making such a late payment are discussed below and in sections 674.16 and 676.16 of the November 30, 1994 Final Rule. The school may disburse funds from the relevant program to the student—

- only if the student is *awarded* while he or she is still an eligible student and
- only if the funds are used to cover documented educational costs that were incurred for a payment period for which the award was intended and during which the student was actually enrolled; costs that may be included are those normally included in a student's cost of attendance under section 472 of the HEA, as amended.

A school that disburses campus-based funds to a student after he or she has dropped out must document in the student's file the reason for the late disbursement.

If a student drops out *after* receiving an award from the Federal Perkins Loan or FSEOG Program, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Four.

SECTION TWO: RESOURCES AND OVERAWARDS

NEED-ANALYSIS FORMULAS

The Higher Education Amendments of 1992 provide a single methodology for determining the Expected Family Contribution (EFC) and cost of attendance (COA) for all SFA programs, beginning with the 1993-94 award year. Need-analysis and COA are discussed in Chapter Two, Section Two. If the student's COA exceeds his or her EFC, the student has "need."

Before awarding aid from campus-based programs, the aid administrator must take into account aid the student will receive from other SFA programs, and other resources that the administrator knows about or can reasonably anticipate at the time aid is awarded to the student. A financial aid administrator may not award or disburse aid from a campus-based program if that aid, when combined with all other resources, would exceed the student's need.

Maximum aid from Campus-Based programs = **Financial Need** - **Aid from other SFA programs & resources**

If the student receives additional resources *at any time during the award period* that were not considered in calculating the student's eligibility for aid, and these resources combined with the expected financial aid will exceed the student's need, the amount in excess of the student's need is considered an overaward.

RESOURCES

Resources, as defined by the campus-based regulations, include, but are not limited to—

- the amount of a Federal Pell Grant the student is entitled to receive, whether or not the student applies for the grant;
- Federal Family Education Loan;

- waiver of tuition and fees;
- grants, including FSEOGs and ROTC living allowances;
- fellowships or assistantships;
- income from insurance programs that pay for the student's education;
- veterans educational benefits;
- long-term loans made by the school, including Federal Perkins and Direct Loans (short-term emergency loans are not considered to be a resource);
- the amount of Federal PLUS loans and state-sponsored or private loans that is in excess of the expected family contribution when these loans are substituted for the student's EFC; and
- net income from need-based employment.

The school may treat an unsubsidized Federal Stafford Loan, Federal PLUS loan or a State-sponsored or private loan as a substitute for a student's EFC. However, if the sum of the loan amounts received exceeds the student's EFC, the excess is a resource.

Need-based earnings are a resource

In the above list of resources, the term "need-based employment" means employment that is awarded by the school itself or by another entity to a student who demonstrates a financial need for those funds for the purpose of defraying educational costs of attendance for the award year. Only income from *need-based* employment may be considered as a resource. (See Sections 674.14, 675.14, and 676.14 of the regulations published in the **Federal Register** on December 28, 1988, as amended by the Final Rule published November 30, 1994.)

Non-need-based earnings

Non-need-based earnings are not to be considered as a resource for the current award year because they will be reported as income on the application for federal student aid for the subsequent award year and will be used to calculate the EFC for that award year.

Veterans *educational* benefits are resources

Veterans *educational* benefits are not included in the EFC formulas; therefore, these benefits must be treated as a resource when determining the amount of a student's financial need from the campus-based programs and must be treated as estimated financial assistance in the Federal

Family Education Loan Program. The veterans educational benefits to be treated as a resource/estimated financial assistance are listed in Chapter Two, Section Two.

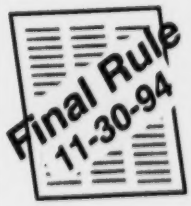
*Non*educational veterans benefits are not counted as a resource or estimated financial assistance, as they are already counted in the EFC formulas as nontaxable income. Noneducational veterans benefits include Death Pension and Dependency and Indemnity Compensation (DIC) benefits.

OVERAWARDS

A financial aid administrator may not award or disburse aid from a campus-based program if that aid, when combined with all other resources, would exceed the student's need. If a student who has already been awarded a financial aid package later receives additional resources that cause his or her financial aid package to exceed his or her need, the amount in excess of the student's need is considered an overaward. There is now a $300 overaward threshold for all campus-based programs. The $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need.

STEPS TO TAKE IF THE OVERAWARD EXCEEDS $300

If a student's total resources would exceed his or her need by more than $300, the school must take the following steps:



1. If all or a portion of a student's unsubsidized Stafford Loan, Direct Unsubsidized Loan, or nonfederal loan or the parents' Direct PLUS or PLUS loan is being used to cover need that was previously unmet, the loan can be adjusted to replace the EFC and, thus, reduce or eliminate the overaward.

2. If the student's financial aid includes a Federal Stafford Loan or a Direct Loan, the school must first return to the lender or the federal government any portion of the Stafford Loan or Direct Loan not yet delivered up to the amount of the overaward

Return any undisbursed Stafford Loan to the lender

3. If, after eliminating any Federal Stafford or Direct Loan overaward, the student's total resources exceed the student's need by more than $300, the school must recalculate the student's need to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student; if the student's need has increased, and the total

Recalculate need

resources do not exceed the increased need by more than $300, the school is not required to take any further action.

If the school recalculates the student's need and determines that the total resources still exceed the need by more than $300, the school must adjust any aid that it can control.

Definition of overpayment

If the school takes these steps and the student's total resources still exceed his or her need by more than $300, the amount that exceeds the need by more than $300 is an overpayment.

If a school learns that a student earning FWS wages has received additional resources that were not included in calculating the student's FWS eligibility and the total resources now exceed the student's need, the actions the school must take vary somewhat from the actions discussed here. These other actions are discussed in Chapter Seven, Section Two.

OVERPAYMENTS

School may be liable for overpayment

A student is liable for any overpayment of a loan or grant; the school is also liable for any overpayment that was caused by the failure of the school to follow the procedures outlined on the previous page in awarding and disbursing aid. If the school makes a campus-based overpayment for which it is liable, it must restore to its campus-based fund an amount equal to the overpayment plus any administrative cost allowance claimed on that amount.

Recovering an overpayment of Perkins advances

If the school makes an overpayment of Federal Perkins Loan advances for which it is not liable (for example, when a student has made a mistake on the application), the school must make a "reasonable effort" to recover the amount. This consists of a written demand to the student to repay the amount of the overpayment, including a notice that failure to repay will mean the student will be ineligible for any additional SFA funds.

Collecting an FSEOG overpayment

If the school makes an FSEOG overpayment for which it is *not* liable, the school must promptly try to recover the overpayment by sending a written notice to the student requesting payment in full. Failure to make repayment of the overaward funds renders the student ineligible for additional SFA funds until final resolution of the overpayment.

If a student objects that the school has made a mistake in determining the overpayment, the school must consider any information provided by the student and determine whether the objection is warranted before referring the overpayment to ED. If the school fails to collect the overpayment after taking these steps *and* if the federal share of the overpayment is $25 *or more*, the school must notify ED of the overpayment, identifying the federal share of the overpayment, the student's name, most recent

address and telephone number, and other relevant information. After providing this information to ED, the school is not required to make any further attempt to collect the overpayment. If the school is unable to collect the overpayment and the federal share is *less than* $25, the school is not required to make any further attempt to collect the overpayment.

COORDINATION WITH BUREAU OF INDIAN AFFAIRS GRANTS

To determine the amount of campus-based aid for a student who is or may be eligible for a Bureau of Indian Affairs (BIA) grant, a school must first develop a financial aid package without considering any BIA funds. If the total aid package—after BIA funds are added—does not exceed the student's need, no adjustment may be made to the aid package. If the total package plus the BIA grant does exceed need, the school must eliminate the excess in the following sequence: loans, work-study awards, and grants other than Pell Grants. (The school may *not* reduce a Pell Grant or BIA grant.) The school may alter this sequence of reductions if the student requests it, and if the school believes the change would benefit the student. In determining the amount of financial need for a student eligible for a BIA grant, a financial aid administrator is encouraged to consult with area officials in charge of BIA postsecondary financial aid.

SECTION THREE: FISCAL PROCEDURES AND RECORDS REQUIREMENTS

For information on general fiscal procedures and records requirements for all SFA programs, refer to Section Two of Chapter Three, the current edition of the "Blue Book," and the General Provisions Final Rule published in the **Federal Register** on December 1, 1994. Additional fiscal procedures required for each campus-based program are discussed in the chapter of this handbook covering that program.

FISCAL OPERATIONS REPORT

School must apply for funds on FISAP

As discussed in the Introduction to this chapter, a school must submit an application (*Fiscal Operations Report and Application to Participate—FISAP*) for each award year to receive federal funds under the campus-based programs. The school uses the *Fiscal Operations Report* portion of the FISAP to report its expenditures under the campus-based programs in the previous award year.

FISAP data must be filed by electronic method

ED distributes in July each year the electronic FISAP packages and instructions for schools to use in applying for funds for the subsequent award year and in reporting expenditures for the previous award year. Materials essential for the preparation and submission of the *1993-94 Fiscal Operations Report and 1995-96 Application to Participate* were distributed to schools in "Dear Colleague" letter CB-94-15, dated July 1994. Schools that sent the FISAP to ED by the October 1, 1994 deadline received their tentative 1995-96 funding notifications in the "Dear Colleague" letter CB-95-1, dated January 1995. Final 1995-96 funding notifications will be sent to schools in March 1995.

ED will distribute electronic FISAP packages to schools in July 1995 to be completed by schools applying for funds for the 1996-97 award year. Proposed new data collection requirements for the 1996-97 *Application to Participate* were discussed in the "Dear Colleague" letter CB-95-2 dated January 1995. All schools are required to file the FISAP data through the electronic FISAP process (*i.e.*, by mailing diskettes, transmitting data by modem, or mailing a magnetic tape).

Refer FISAP questions to ED

Questions concerning the preparation of the FISAP should be referred to ED's Student Financial Assistance Programs, Accounting and Financial Management Service, Institutional Financial Management Division, to the appropriate campus-based state representative. The representatives and their telephone numbers are listed in Chapter One, Section One, of this *Handbook*. Questions about the data entry or submission of a FISAP should be referred to an Electronic FISAP Administrator on (301) 565-0032 or (202) 708-6726.

CAMPUS-BASED PROGRAM RECORDS

Types of records the school must keep

A school must keep financial records that reflect all campus-based program transactions and must keep all records supporting the school's application for campus-based funds. This includes the applications and records of all students who applied for campus-based assistance for a specific award year and were included on the school's FISAP for that award year. This also includes students who applied for but did not receive aid, either because the school had no more funds to award or the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and separate those transactions from other institutional financial activity.

Period for record retention

Generally, a school must keep records pertaining to a specific award year for 5 years after submitting the FISAP for that award year. There are two exceptions: one for loan records and one for records of expenditures questioned in audits or program reviews. Repayment records for Federal Perkins and Direct/Defense loans (including cancellation and deferment requests) must be kept for at least 5 years from the date on which the loan is assigned to ED, canceled, or repaid. Records questioned in an audit or program review must be kept until the questions are resolved.

Storage of records

A school must keep the original signed promissory note and signed repayment schedule for a Federal Perkins, Direct, or Defense loan in a locked fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan (see Chapter Six, Section Two). A school may substitute microform copies for original records (other than promissory notes and repayment schedules), or it may keep its records in computer format. If a school chooses the computer format, it must keep the source documents supporting the computer input either in hard copy or in microforms. If a loan is assigned to ED, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s), not computer-generated form(s) or microform(s).

Procedures for all campus-based program records

Records for all campus-based programs must—

- be reconciled at least monthly (this applies to fiscal information only);
- identify each student's account and its status—amounts awarded, disbursed, etc.;
- show the eligibility of each student who received campus-based funds; and
- show the amount of each student's need and how it was met.

Repayment history

The school's records for the Federal Perkins Loan Program must also include a repayment history for each borrower, containing—

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

Federal Work-Study records

Under FWS, records must also include—

- a certification, signed by the student's supervisor (an official of the school or off-campus agency), that a student has worked and has earned the amount being paid;
- a payroll voucher with sufficient information to support all payroll disbursements (see Chapter Seven, Section Three); and
- a non-cash contribution record, if a school paid its share of a student's earnings in the form of services and equipment (see "Non-Federal Share" in Chapter Seven, Section Five).

ADMINISTRATIVE COST ALLOWANCE

Allowance to offset administrative costs

Schools participating in the campus-based programs are entitled to an allowance to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The allowance can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Federal Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the campus-based programs, but the Federal Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements. A school may use up to 10 percent of the administrative cost allowance attributable to the school's FWS Program expenditures to offset expenses incurred for its community service program.

Allowance based on campus-based expenditures

Each school's administrative cost allowance is based on its expenditures for all three programs, *excluding* the amount of Federal Perkins Loans assigned to ED. The school calculates the total administrative cost allowance for the campus-based programs in Part VI of the FISAP by adding the following:

> 5 percent of the first $2,750,000 of a school's expenditures under the campus-based programs
>
> +
>
> 4 percent of expenditures greater than $2,750,000 but less than $5,500,000 under the campus-based programs
>
> +
>
> 3 percent of expenditures greater than $5,500,000 under the campus-based programs

Limitation on FSEOG Administrative Cost Allowance

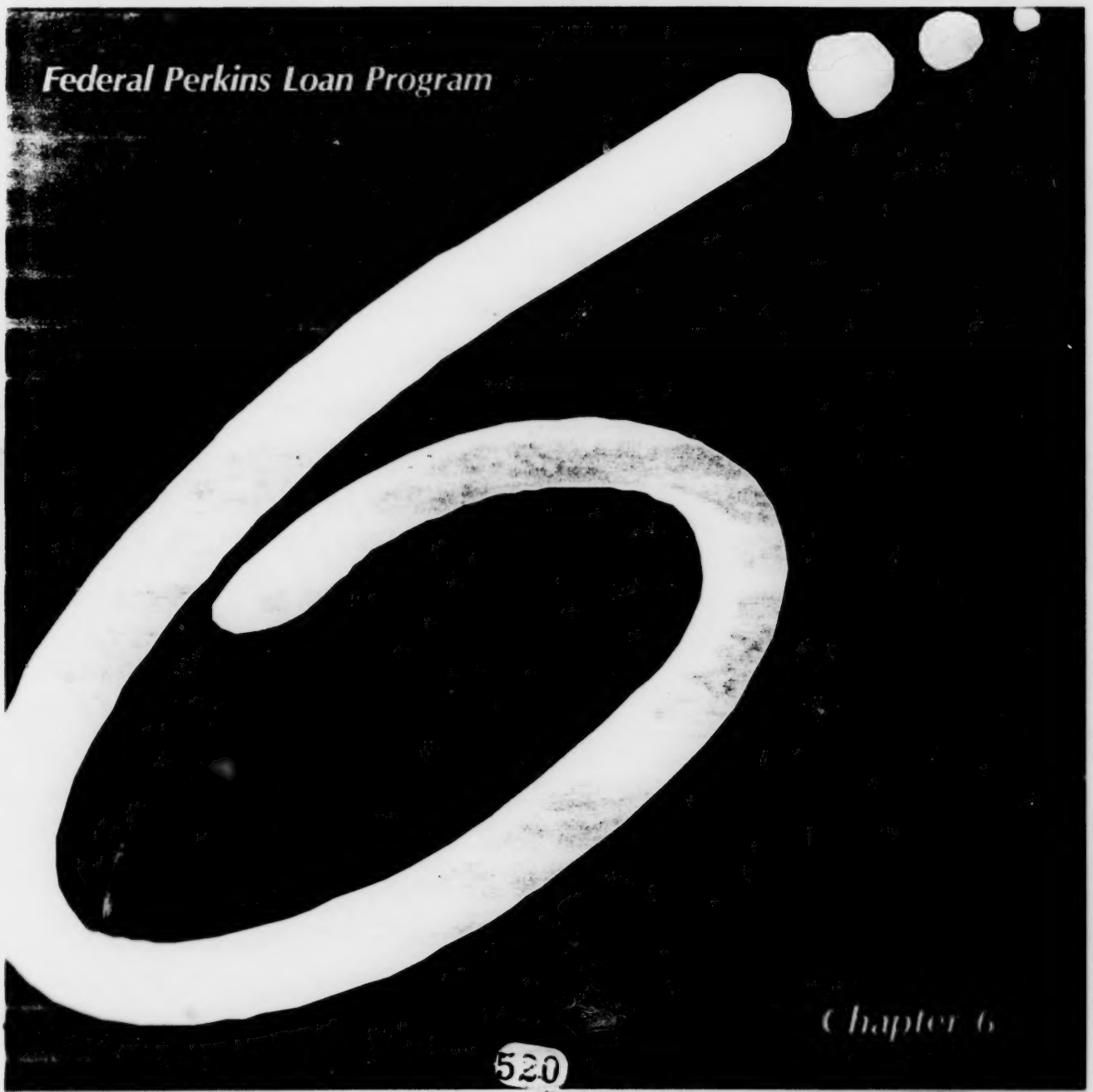
When a school calculates its administrative cost allowance for the 1995-96 award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75 percent federal share and the required 25 percent non-federal share. However, a school that chooses to provide more than a 25 percent institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25 percent in its FISAP or in the calculation of its administrative cost allowance. If a school has been granted by ED a waiver of its required institutional share for the FSEOG or FWS Program, that school's administrative cost allowance may be calculated only on the full federal portion of its awards for those programs.

Source of administrative cost

The school takes the administrative cost allowance out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash-on-hand in the Federal Perkins Loan Fund. It is not a separate allowance sent to the school. A school may draw its

allowance from any combination of campus-based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allowance from a campus-based program unless it has disbursed funds to students from that program during the award year.

The Federal Student Financial Aid Handbook 1995-96



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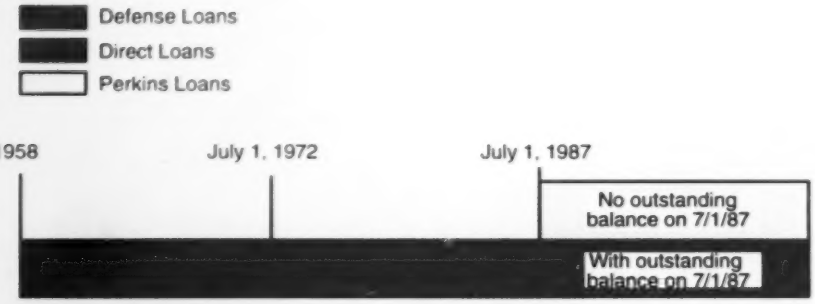
INTRODUCTION

Loans under the Federal Perkins Loan Program include Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Loans (no new Defense Loans were made after July 1, 1972, but a few are still in repayment). Federal Perkins Loans and NDSLs are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay their postsecondary educational costs. The school must give priority to students with exceptional financial need as defined by the school (see Section One of this chapter). The current interest rate is 5 percent.

Loans made before July 1, 1972 were Defense Loans. Loans made from July 1, 1972 through June 30, 1987 were NDSLs. A loan made on or after July 1, 1987 could be either an NDSL or a Perkins Loan; if the borrower had an outstanding balance on a previous Defense or NDSL on July 1, 1987, the new loan was an NDSL; if the borrower had no outstanding balance on a previous Defense Loan or NDSL on July 1, 1987, the new loan was a Perkins Loan. This continues to be the case; any loan made to a borrower who has an outstanding NDSL balance would continue to be an NDSL. If the borrower has no outstanding NDSL balance, the new loan is a Federal Perkins Loan.



FINAL RULE, NOVEMBER 30, 1994

As stated in the Introduction to Chapter Five, a Final Rule amending the campus-based regulations was published in the **Federal Register** on November 30, 1994 to incorporate the provisions of the Higher Education Amendments of 1992 (P.L. 102-325) and the Higher Education Technical Amendments of 1993 (P.L. 103-208). This Final Rule also incorporated

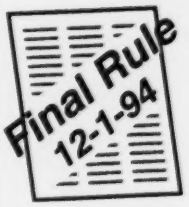
provisions of the National and Community Service Act of 1990 (P.L. 101-610), the Crime Control Act of 1990 (P.L. 101-647), the Improving America's Schools Act of 1994 (P.L. 103-382), and the Bankruptcy Reform Act of 1994 (P.L. 103-394).

Revisions to the Federal Perkins Loan Program regulations were made in the sections listed below (each revision is discussed in the relevant section of Chapter Six). Many of these provisions were self-implementing based on statutory language and, therefore, are already in effect. The statutory provisions are incorporated into the regulations as follows:

New definitions in Section 674.2

- Section 674.2 adds definitions of five new terms: "enter repayment," "making of a loan," "national credit bureau," "satisfactory arrangements to repay the loan," and "total monthly gross income." Section 674.2 also includes a revised definition of "undergraduate student."
- Section 674.4 includes new provisions about allocation and reallocation of the federal capital contribution to schools.
- Section 674.5, a new section, provides the method for calculating a school's cohort default rate and penalties and provides a definition of rehabilitated loans, which are excluded from the school's cohort default rate calculation.
- Section 674.6, another new section, incorporates the default reduction plan for schools with a cohort default rate of 15 percent or more.
- A third new section, Section 674.7, incorporates the expanded lending option (ELO), which is discussed in Section Two of this chapter.
- Section 674.9 lists the eligibility requirements for a borrower whose previous loan was cancelled due to total and permanent disability or discharged in bankruptcy (see Section Eight).
- Section 674.10 includes the requirement that a school must offer at least 5 percent of the dollar amount of loans made in an award year to less-than-full-time or independent students if the school's Federal Capital Contribution (FCC) is based in part on the need of those students
- Section 674.12 was revised to incorporate the new loan limits.
- Section 674.14 includes a new provision about treatment of resources in excess of need.
- Section 674.16 includes new provisions regarding making and disbursing loans (this section was further amended by Section

668.165 of the General Provisions Final Rule published in the **Federal Register** on December 1, 1994, discussed in Chapter Three, Section Three).



- Section 674.18 includes new provisions regarding the transfer of funds to the FWS, FSEOG, and Work-Colleges programs.
- Section 674.19 is amended to remove the reference to an endorser.
- Section 674.19(b) of the November 30 Final Rule was amended by the General Provisions Final Rule published in the **Federal Register** on December 1, 1994. This section requires a school to maintain its Perkins Loan Fund in accordance with the provisions of Section 668.164 of the December 1 Final Rule (refer to Chapter Three, Section Three).
- Section 674.31 of the November 30 Final Rule includes new requirements for promissory notes (refer to Section Two of this chapter).
- Section 674.33 includes revised repayment provisions (see Section Three of this chapter), adds new paragraph (d) regarding forbearance (see Section Four) and adds new paragraph (e) regarding compromise of repayment (see Section Eight of this chapter).
- A new Section 674.34 includes the deferment provisions for loans made on or after July 1, 1993, including the economic hardship deferment. (Deferments are discussed in Section Four of this chapter).
- Section 674.35 (formerly 674.34) includes a revision of the maximum compensation and benefits a volunteer may receive for service comparable to Peace Corps or VISTA service in order to qualify for the deferment of a loan made before July 1, 1993.
- Section 674.36 (formerly 674.35) includes a revision identical to the one above, but which applies to volunteer service deferment of NDSLs made between October 1, 1980 and July 1, 1993.
- Section 674.38 (formerly 674.37) includes a new provision requiring a school to determine at least annually whether a borrower continues to be eligible for a deferment.
- Section 674.41 is amended to remove reference to an endorser.
- Section 674.42 requires a school to inform a borrower during the exit interview of his or her right to forbearance and requires the borrower to provide certain information to the school (see Section Six).

- Section 674.43 adds the provision that, if a borrower elects to repay a loan by an electronic transfer of funds from his or her bank account, the school must send the borrower an annual statement of account.
- Section 674.44(a) is revised to *permit* a school to use ED's skip-tracing service, but not *require* its use.
- Section 674.44(d) is revised to remove reference to the statute of limitations as a restriction on the timing of contacting the borrower.
- Sections 674.45(a) and (b) are revised to incorporate the requirement to report a defaulted loan to any one of the national credit bureaus with which ED has an agreement.
- Section 674.45(d) is revised to remove reference to the statute of limitations.
- Section 674.45(g), a new section, states that the collection procedures included in Section 674.45 preempt any state statute of limitations or other state rule that hinders collection of a defaulted loan.
- Section 674.46 is revised to remove the reference to a statute of limitations, which is no longer applicable.
- Section 674.47 is modified to incorporate the word "defaulted."
- Section 674.48 is revised to require a contractor used by a school for billing and collections to deposit funds collected into an interest-bearing account only if those funds will be held for longer than 45 days.
- Section 674.49 is revised to remove the requirement to continue collection procedures for an endorser after the borrower files for relief in bankruptcy.
- Section 674.50 requires that a school assigning a defaulted loan to ED must provide documentation that the school has complied with all due diligence requirements if its cohort default rate is 20 percent or more as of June 30 of the second year preceding the submission period.

New definitions for public service deferments & cancellations

- Section 674.51 of the Final Rule includes several new definitions of terms used in the new cancellation provisions for borrowers who perform certain kinds of public service (the new cancellation provisions apply to Federal Perkins Loans and NDSLs made on or after July 1, 1993). The new definitions also affect a borrower's entitlement to *deferment* for any service that qualifies for cancellation. Definitions for these terms are at the end of Section Six of this chapter.

- Section 674.52(b) expands the provision allowing a school to refuse to cancel a loan for the borrower's part-time employment as a teacher at two or more institutions if the school is unable to verify that the borrower was employed full-time for a full academic year. This provision now includes the borrower's part-time employment as a nurse or medical technician.

- Section 674.52(d) updates the provision that, if a borrower is teaching or engaged in services that qualify him or her for both deferment and cancellation, the loan deferment is considered to run concurrently with any period for which loan cancellation is granted. This provision now includes the new cancellation provisions (see Section Five of this chapter).

- Section 674.52(e) adds a new provision that a borrower who has received an education benefit under Subtitle D of Title I of the National and Community Service Act of 1990 is not entitled to a Federal Perkins Loan cancellation for that service.

- Section 674.53 was added and includes the teacher cancellation provisions for Federal Perkins and NDSLs made on or after July 23, 1992 (see the discussion in Section Five of this chapter).

- Section 674.54 (formerly Section 674.53) provides that, if a borrower of a Federal Perkins or NDSL made before July 23, 1992 is teaching in a school that is defined as a low-income school one year but not in a subsequent year, the borrower may continue to teach in the same school and be eligible for loan cancellation (see the discussion in Section Five of this chapter).

- A new Section 674.56 includes the new employment cancellation provisions for Federal Perkins Loans and NDSLs made on or after July 23, 1992 (see Section Five).

- A new Section 674.57 includes the cancellation provisions for full-time service as a law enforcement or corrections officer (see Section Five).

- Section 674.61 (formerly Section 674.58) redefines permanent and total disability as the inability to work and earn money *or to attend school* because of an impairment that is expected to continue indefinitely or result in death (see Section Five).

"DEAR COLLEAGUE" LETTERS ABOUT THE 1994 FLOODS

GEN-94-33, September '94

GEN-95-1, January '95

To assist borrowers and schools in areas designated as natural disaster areas due to the 1994 floods in Alabama, Georgia, Florida, and Texas, ED issued guidance to schools in "Dear Colleague" letters GEN-94-33, dated September 1994, and GEN-95-1, dated January 1995. The guidance is

similar to that provided after other recent natural disasters. Although the guidance provided (see below) was applicable to the 1994-95 award year, the temporary loan provisions that were in effect during that award year will in many cases continue to have an impact on repayment after the end of the 1994-95 award year:

- *Borrowers in an "In-School" status (Section 674.31 of the regulations).* ED will consider that any borrower who was in an "in-school" status at the time of the natural disaster and was unable to complete course requirements or enroll in classes due to the floods will continue to be in an "in-school" status until such time as the borrower withdraws, or until the end of the 1994-95 award year, whichever is later. The school should document this reason for continued "in-school" status in the student's file.

- *Borrowers in Initial or Post-Deferment Grace Periods (Section 674.42).* ED will not require a school to comply with Section 674.42(b) requiring a school to make contact with the borrower during an initial or post-deferment grace period. A school must document the reason for suspension of these activities in the borrower's file.

- *Borrowers in Default—Due Diligence.* ED will not enforce 34 CFR Subpart C - Due Diligence. A school could suspend collection activities for borrowers already in default at the time of the natural disaster. A school must document the reason for suspension of these activities in the borrower's file.

- *Borrowers in Repayment (Sections 674.34-674.36).* ED authorized the school to grant an administrative hardship deferment to a borrower who is in repayment at the time of the natural disaster but is unable to continue to repay the loan due to the disaster. The legislation governing the Perkins Loan Program requires that interest will accrue during any period of administrative hardship deferment. A borrower could request this deferment orally or in writing and was not required to submit a deferment documentation form to be considered eligible for this deferment. A school must document this deferment in the borrower's file.

PARTICIPATION AGREEMENT AND FEDERAL PERKINS LOAN FUND

As discussed in Chapters Three and Five, a school that wants to participate in any SFA program must sign a Program Participation Agreement with the Secretary. The Agreement must be signed by the school official legally authorized to assume, on the school's behalf, the Agreement's obligations.

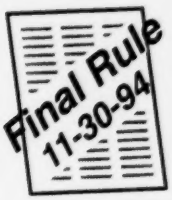
For all of the programs, the Agreement provides that the school must use the funds it receives solely for the purposes specified in the regulations for each program and must administer each program in accordance with the Higher Education Act of 1965, as amended, and the Student Assistance General Provisions regulations. By signing the Agreement, the school also agrees to submit annually to ED a report containing information that will determine its cohort default rate (discussed in Section Eight of this chapter).

The Agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a Federal Perkins Loan Fund (the Fund) and to deposit into the Fund—

- the federal capital contribution (FCC) the school receives as its federal allocation for the program for each award year (refer to the discussion on the next page);
- the school's matching share—the institution's capital contribution (ICC), discussed on the next page;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the Fund;
- payments the school receives from the federal government for cancellations of Federal Perkins and NDSLs (such as teacher cancellations—see Section Five of this chapter);
- any other earnings on assets of the Fund, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short term no-interest loans the school makes to the Fund in anticipation of receipt of its FCC or of loan collections.

ALLOCATION OF FUNDS—FEDERAL CAPITAL CONTRIBUTION

As discussed in the Introduction to Chapter Five, a school applies for program funds annually through the Electronic *Fiscal Operations Report/ Application to Participate*, (FISAP). ED allocates funds directly to schools. The allocation or FCC for the Federal Perkins Loan Program is the amount of funding the school is authorized to receive from ED for an award year. This amount is based on the funds appropriated by Congress for the program, as well as the allocation formulas in the law, which do not provide for appeals.



The following provisions of the Higher Education Amendments of 1992 and the November 30, 1994 Final Rule affect the school's allocation:

1995-96 ICC is 25% of combined ICC and FCC

- ED bases the initial allocation of a school's FCC on the amount allocated to the school for the 1985-86 award year.
- ED reallocates funds to schools by reallocating 80 percent in accordance with the statutory formula in section 462(j) of the HEA and reallocating 20 percent in a manner that best carries out the purposes of the Federal Perkins Loan Program.
- The school's matching share or ICC is one-third of the FCC (or 25 percent of the *combined* FCC and ICC), except that schools participating in the ELO are required to provide a dollar-for-dollar match with the FCC.
- If a school returns more than 10 percent of its FCC, ED will reduce the school's FCC for the second succeeding year by the dollar amount returned (refer to the Introduction to Chapter Five).
- A school may transfer up to a total of 25 percent of its FCC for an award year to either or both the FSEOG and FWS programs.
- A school may transfer up to 100 percent of its initial and supplemental allocations to the Work-Colleges Program.
- A school must use the transferred funds according to the requirements of the program to which they are transferred.
- A school must report any funds that are transferred to another program on the Fiscal Operations Report portion of the FISAP.
- A school that transfers funds to the FWS, FSEOG, and/or Work-Colleges programs must transfer any unexpended funds *back* to the Federal Perkins Loan Program at the end of the award year.
- If a school has a cohort default rate equal to or greater than 20 percent, the school's FCC will be reduced by a default penalty calculated in relation to the school's cohort default rate (see Section Eight, "Default").

SECTION ONE: STUDENT ELIGIBILITY

Undergraduate and graduate students

Both undergraduate and graduate students may receive loans under the Federal Perkins Loan Program. To be eligible for a Perkins Loan, a student must meet the general student eligibility requirements discussed in Chapter Two of this handbook and must not have borrowed the maximum amounts listed in Section Two of this chapter. A student who has earned a bachelor's or first professional degree may receive a Federal Perkins Loan to pursue an *additional undergraduate* degree provided that he or she meets the eligibility requirements. A student engaged in a program of study abroad also may be eligible for Perkins Loans.

Additional undergraduate degree

Study abroad

Medical interns and residents are not eligible

An individual who is serving in a medical internship or residency program is not eligible for a Federal Perkins Loan. This provision in Section 464(c)(2)(A)(i) of the HEA, as amended became effective January 1, 1990 and does not apply to dental internships.

Incarcerated students are not eligible

An incarcerated student is not eligible to receive a loan from any SFA program, including the Federal Perkins Loan Program (refer to Section 668.7(a)(14) of the General Provisions regulations published in the **Federal Register** on March 16, 1994).

Exceptional financial need and eligibility for Pell Grants

A school must give priority to those students with exceptional financial need as defined by the school using procedures it establishes for that purpose. The school's selection procedures must be in writing, uniformly applied, and kept on file at the school. Before an undergraduate student can receive a loan, the school must determine his or her eligibility or ineligibility for a Pell Grant; a preliminary hand calculation is acceptable after a student has filed a FAFSA with the central processing system. Note that even if the hand calculation shows the undergraduate student will be ineligible for a Pell Grant, the student must apply for one before a Perkins Loan can be awarded. Remember that a student must have an "official" EFC that has been processed by the Central Processing System.

Independent and less-than-full-time students

A school must offer at least 5 percent of the dollar amount of loans made under the Federal Perkins Loan Program to independent students and less-than-full-time students if the FCC for the program is partly based on the financial need of these students and the financial need of these students exceeds 5 percent of the total financial need of all students at the school (see Chapter Five, Section One).

Teacher certification programs

A school may award a Federal Perkins Loan and/or FWS job to a student who is enrolled or accepted for enrollment at least half time in an eligible teacher certification or professional credential program. Eligibility criteria for such a program are discussed in Chapter Five, Section One.

WILLINGNESS TO REPAY AS AN ELIGIBILITY CRITERIA

Failure to repay previous loan

In selecting among eligible applicants, a school must consider evidence of a student's willingness to repay the loan. Failure to meet payment obligations on a previous loan is evidence that the student is unwilling to repay the loan. (For more information, see "Default and Student Eligibility," in Section Eight of this Chapter.)

Loan that was written off

If a borrower had a previous Federal Perkins Loan, NDSL, or Defense Loan that the school was unable to collect and that was written off, the borrower may be eligible for a new loan only if he or she reaffirms the debt (unless the amount written off was $25 or less). To reaffirm a debt that was written off, the borrower must acknowledge the loan in a legally binding manner, such as signing a new promissory note, signing a new repayment agreement, or making a payment on the loan.

Previous cancellation due to disability

If a student has obtained a cancellation of a previous Federal Perkins Loan or NDSL due to permanent and total disability, and is applying for a subsequent Federal Perkins Loan or NDSL, the borrower may be eligible to receive additional funds from the Federal Perkins Loan Program if he or she meets certain conditions. These conditions are—

- the borrower obtains a certification from his or her physician that the borrower's condition has improved and that he or she is able to engage in substantial gainful activity; and
- the borrower signs a statement acknowledging that any new Federal Perkins Loan or NDSL cannot be cancelled in the future on the basis of any present impairment, unless the condition substantially deteriorates to the extent that the definition of total and permanent disability is met.

Previous discharge in bankruptcy

As a result of the Bankruptcy Reform Act of 1994, a student may not be denied student financial assistance from SFA programs, including the Federal Perkins Loan Program, solely on the basis of a bankruptcy determination. If a student has filed for or received a discharge in bankruptcy, has had a student loan discharged in bankruptcy, or has not paid a student loan that has been determined by a court of law to be dischargeable in bankruptcy, the bankruptcy may be considered as evidence of an adverse credit history but cannot be the basis for denial of a future loan from the Federal Perkins Loan or other student loan programs. A student is no longer required to establish eligibility for a new

student loan by agreeing to repay the loan discharged in bankruptcy. However, schools may continue to consider the student's *post*-bankruptcy credit history in determining willingness to repay the loan.

LOAN AVAILABILITY

Make loans reasonably available

Schools must make loans reasonably available to all eligible students, to the extent of available funds, with loans made first to students with exceptional need. A school may not exclude a particular category of students. As stated earlier, at least 5 percent of the Federal Perkins Loan funds a school advances to students for an award year must be offered to *independent students* and *less-than-full-time students* if the school's FCC for that award year is partly based on the financial need of these students and the financial need of these students exceeds 5 percent of the total financial need of all students at the school.

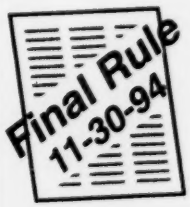
Schools may set priorities

However, the school may set certain priorities when packaging aid. As an illustration, a school could first distribute Federal Perkins Loans to full-time third-year students who have at least $500 in financial need after the EFC, Federal Pell Grants, and any scholarships received have been subtracted from the cost of attendance. Federal Perkins Loan funds may not be used *exclusively* for such a group, of course, but it is permissible to establish priorities.

Schools may request certain disclosures

In administering the Federal Perkins Loan Program, a school must comply with the equal credit opportunity requirements of Regulation B (12 CFR Part 202). ED considers the Federal Perkins Loan Program to be a credit assistance program authorized by federal law for the benefit of an economically disadvantaged class of persons within the meaning of 12 CFR 202.8(a)(1). Therefore, a school may request that a loan applicant disclose marital status, income from alimony, child support, and spouse's income and signature.

PAYMENT TO STUDENT WHO DROPS OUT



A student who drops out before receiving his or her Federal Perkins Loan may be eligible to receive a payment, but only under the following criteria (see Section 674.16(g) of the November 30, 1994 Final Rule):

- the loan must have been awarded to the student while he or she is still an eligible student; and
- the loan funds must be used to cover documented educational costs to the student during the student's enrollment in the payment period for which the loan was intended, and the costs must be only those that are normally included in a borrower's cost of attendance, as defined in section 472 of the HEA.

If a student drops out *after* receiving his or her Federal Perkins Loan, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Five, "Refunds and Repayments."

SECTION TWO: MAKING & DISBURSING LOANS

Definition of making a loan

A loan is considered to be "made" when the borrower signs for the advance *and* the funds are disbursed. A borrower must sign for each advance *at the time* he or she receives each disbursement. It is not acceptable practice for the student to sign in advance of receipt of the funds.

Financial need

- Other resources

Maximum loan eligibility

As discussed in Chapter Five, a financial aid administrator may not award or disburse a Federal Perkins Loan or NDSL to a student if that loan, when combined with all other resources, would exceed the student's need. The aid administrator must take into account those resources that he or she can reasonably anticipate at the time aid is awarded to the student, those the school makes available to its students, or those the aid administrator knows about. A list of resources and a discussion of overawards are included in Chapter Five, Section Two.

Uniform cash management regulations

General information about the methods of disbursing funds to a student, crediting a student's account, allowable charges, and holding student loans is included in the General Provisions Final Rule published in the **Federal Register** on December 1, 1994. The new regulations, effective July 1, 1995, provide uniform cash management rules for the SFA programs and apply to the 1995-96 and subsequent award years. These provisions are discussed in Chapter Three, Section Three—"Cash Management." The major provisions that affect the disbursement of Federal Perkins Loans, effective beginning July 1, 1995, are discussed on page 6-21.

LOAN MAXIMUMS

General loan maximums

If a student is attending a school that does *not* participate in the Expanded Lending Option (ELO) of the Federal Perkins Loan Program, the maximum annual amount an eligible student may borrow is—

- $3,000 per year for a student who has not successfully completed a program of undergraduate education or
- $5,000 per year for a graduate or professional student.

The maximum cumulative amount an eligible student may borrow at schools that do *not* participate in the ELO is—

- $15,000 for a student who has not successfully completed a program of undergraduate education or
- $30,000 for a graduate or professional student, including loans borrowed as an undergraduate student.

Expanded Lending Option (ELO)

A school that maintains a cohort default rate of 15 percent or less may participate in the ELO if the school has signed an ELO participation agreement with ED (cohort default rates are discussed in Section Eight of this chapter).

Schools participating in the ELO are required to match the Federal Capital Contribution (FCC) on a dollar-for-dollar basis and may make loans to students at higher award-year and cumulative loan limits than is the case with nonparticipating schools.

Loan limits at ELO schools

If a student is attending a school that participates in the ELO, the maximum annual amount the student may borrow, effective July 1, 1993, is—

- $4,000 per year for a student who has not successfully completed a program of undergraduate education or
- $6,000 per year for a graduate or professional student.

The maximum cumulative amount an eligible student may borrow at schools that participate in the ELO, effective July 1, 1993, is—

- $20,000 for a student who has successfully completed 2 years of a program leading to a bachelor's degree, but who has not completed the work necessary for the degree;
- $40,000 for a graduate or professional student, including loans borrowed as an undergraduate student; or
- $8,000 for all other students.

Repayment does not establish new loan limit

All of the cumulative maximum amounts listed here include all Defense Loans, NDSLs, and Federal Perkins Loans a borrower may have. Unlike the Federal Family Education Loan Program, repayment does not establish a new cumulative loan limit. For example, a student who had borrowed $30,000 (or $40,000 at an ELO school) while earning bachelor's and master's degrees would not be eligible for a new loan for a doctoral program, even though the student had repaid part or all of the $30,000 (or $40,000).

Study abroad

Students engaged in programs of study abroad are eligible for loans from the Federal Perkins Loan Program; the annual and aggregate loan limits listed above may be exceeded by 20 percent for study abroad in programs approved for credit by the home school where the student is enrolled if reasonable costs of the program exceed the cost of attending the home school.

Loans limits for teaching certificate students

A student enrolled in a teacher certification program may be considered either an undergraduate or graduate student, depending on the school's policy. That decision is left to the school. If the school considers such students graduate students, and the school has a student who has already borrowed $15,000 (or $20,000 at a school participating in ELO), that student is still eligible to receive an additional Federal Perkins Loan or NDSL. If the school considers these students to be taking undergraduate courses, the student who has already borrowed $15,000 (or $20,000) would not be able to receive an additional loan.

COUNSELING STUDENTS

Before making the first Federal Perkins Loan or NDSL disbursement, the school must have the student sign the promissory note (see "The Promissory Note" in Section Two of this Chapter), and *must* furnish each student with certain information—each student must be informed about his or her rights and responsibilities under the Federal Perkins Loan Program. The student must be informed that the loan may be used only for educational expenses, and that he or she must repay it. The school should also make sure the student knows that the *school* holds the promissory note.

School must provide certain information

A school must also provide the student with the following information in writing before making the first loan disbursement:

1. the name of the school and the address where communications and payments should be sent;

2. the principal amount of the loan and a statement that the school will report the outstanding balance of the loan to a national credit bureau at least annually (see Section 674.16(a)(1)(ii) of the November 30 Final Rule);

3. the stated interest rate on the loan;

4. the maximum yearly and cumulative amounts the student may borrow;

5. an explanation of when the student must start repayment, and when he or she must begin paying the interest that accrues;

6. the maximum and minimum repayment terms the school may impose, and the minimum monthly repayment required;

7. a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;

8. options the borrower may have to consolidate or refinance the loan;

9. the borrower's right to prepay all or part of the loan at any time without penalty;

10. a summary of circumstances in which repayment of the loan principal or interest may be deferred or cancelled, including a brief notice about the Department of Defense program for repaying loans based on certain military service;

11. a definition of default and the consequences to the borrower, including a statement that the school may report the default to a national credit bureau (see Section 674.16(a)(1)(x) of the November 30 Final Rule);

12. the effect of accepting the loan on the borrower's eligibility for other types of student aid;

13. a complete list of charges connected with making the loan, including whether those charges are deducted from the loan, or the student must pay them separately; and

14. an explanation of the costs that may be assessed the student in collecting the loan, such as late charges and collection and litigation costs.

The school must provide this information to the student—in writing—as part of the application material, as part of the promissory note, or on a separate form. While the information can be mailed to students, it is preferable for the aid administrator to meet with them to answer their questions and to emphasize their responsibility to repay their loans.

Obtain information from students

The school is encouraged to use this initial counseling session to obtain the following information from students, which could be valuable later for use in collection procedures:

- student's name, current address, and Social Security number;
- parents' permanent address;

- telephone numbers of the student and his or her parents;
- expected date of graduation;
- spouse's name and address;
- spouse's employer;
- names and addresses of two or three personal acquaintances; and
- student's drivers license number, if any.

This information will help locate students who leave school without notice or who do not attend the exit interview. Effective "pre-loan" counseling sessions will satisfy the requirement to tell each borrower about his or her rights and obligations and provide information about the requirement to repay a loan. However, this counseling may not be used to satisfy the requirement for an exit interview. (See Section Six of this Chapter for more information.)

THE PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. A student must sign this note before he or she can receive any Federal Perkins funds and must be given a copy of the note at (or before) the exit interview. The note includes information about the interest rate on the loan, repayment terms, minimum rates of repayment, deferment and cancellation provisions, and late charges.

Sample notes in "Dear Colleague" letter CB-93-9

ED issued promissory note information and new sample promissory notes in "Dear Colleague" letter CB-93-9, dated July 1993. These notes include the current deferment and cancellation provisions as well as other changes required by the Higher Education Amendments of 1992. A school *must* use a promissory note which the Secretary has approved. A school's promissory note must incorporate the provisions of the Higher Education Amendments of 1992.

Credit bureau reporting

In addition, beginning with the 1995-96 award year, a promissory note must state that the school is required to disclose to any one of the national credit bureaus with which ED has an agreement the amount of the loan made to the borrower along with other relevant information. The note must also state that if the borrower defaults on the loan, the school is required to disclose to the same national credit bureau to which it originally reported the loan that the borrower has defaulted on the loan along with other relevant information (see Section 674.31(b)(10)). Since the 1993-94

award year, a school has been required to provide this information to a borrower in writing but not necessarily on the promissory note.

Minor who signs note is responsible for repayment

The Higher Education Amendments of 1992 eliminated the "defense of infancy" whereby the signing of a contract by a minor would not create a binding obligation. Under this provision of the law, a minor may sign a promissory note without an endorser or security, and the minor who signs is responsible for repayment, regardless of any state law to the contrary.

If the lending institution does not have a valid note or other written evidence that would be upheld in a court of law, the institution has no recourse against a borrower who defaults. In such cases, the school would have to repay to its Federal Perkins Loan Fund any amounts loaned as well as any administrative cost allowance claimed on those amounts. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates for loan advances.

There are two sample notes for Federal Perkins Loans: one for borrowers attending at least half time and one for borrowers attending less than half time. Two other notes are for NDSLs—again, one note for borrowers attending at least half time, one for borrowers attending less than half time. Using two sets of notes will avoid confusion over which provisions apply to which borrowers. Once a student has been categorized as a Federal Perkins Loan or NDSL borrower, the provisions of the appropriate promissory note will continue with that borrower for the life of the loan.

SCHOOL-DESIGNED NOTE

Optional provisions

A school may develop its own notes, which may include some or all of the optional provisions. However, a school-designed note must include all of the required information and must be based on the sample notes provided in "Dear Colleague" letter CB-93-9. The school may not change the text or the order of the text in the ED-provided notes. Thus, the signature for advances and the signature must be at the end of the note. The school may add such information as the student's driver's license number to the note.

There is no minimum size of type or print specified for the notes. However, the notes must be legible so that a borrower would not be able to claim a defense against repayment of the loan because the print was too small to be readable.

Minimum monthly repayment option

Optional provisions regarding a minimum monthly payment are included in both of the sample Federal Perkins and NDSL notes (bracketed paragraphs III(5)(A) and III(5)(B)), and a school may choose to include these provisions. However, a school must either include both paragraphs

or omit both paragraphs. If the school includes both paragraphs in the promissory note, the note must state the exact amount of the minimum monthly payment amount. If the school does not include the minimum monthly payment option in the note, the school may not require a minimum monthly payment amount from the borrower.

If the optional provisions are included in the school's note, a monthly minimum amount of $40 is required for loans made on or after October 1, 1992, to borrowers who have no outstanding balance on a Federal Perkins Loan, NDSL, or Defense loan. (For other borrowers, the monthly minimum amount remains $30.)

If a school is developing its own notes, it may use either "open ended" or "closed-end" ("limited") notes. A note may be printed on more than one sheet of paper if the borrower signs each page, or if each page contains the number of that page plus the total number of pages in the note (for example, page 1 of 3, page 2 of 3).

Closed-End valid for 12 months—contains loan amount

- *"Closed-End" or "Limited" Note*: This note is valid for not more than 12 months and usually covers one award year or one academic year. The amount of the loan must be entered in the note. Closed-end notes can be designed for a single disbursement (if the award is less than $501) or multiple disbursements. If a school uses multiple disbursements, the borrower must sign for each advance. If there will be only one disbursement, the borrower's signature at the end of the note is sufficient.

Open-Ended does not contain loan amount

- *"Open-Ended" Note*: The sample notes in "Dear Colleague" letter CB-93-9 are open-ended notes. An open-ended note does not itself contain the specific amount of the approved loan. Instead, at the time of each disbursement, the school must enter the amount advanced and the date of receipt in the "Schedule of Advances," which is made a part of the note. The borrower must sign this Schedule *each time* he or she receives a disbursement. *It is not acceptable practice for the student to sign in advance.* If a school uses an open-ended note, it does not have to issue new notes for future loans it makes to the same borrower, *unless* the requirements of the Federal Perkins Loan Program are changed by statute or regulation. An open-ended note may be used for several years.

Below is an example of a Schedule of Advances in an open-ended note:

Promissory Note—Federal Perkins Loan Program

I, ___*Earnest N. Deavor*_____, promise to pay to ___Hillandale College____ (hereinafter called the Institution), located at ____Pine Ridge, Montana____, the sum of the amounts that are advanced to me and endorsed in the Schedule of Advances set forth below. I promise to pay all reasonable collection costs, including attorney's fees and other charges, necessary for the collection of any amount not paid when due.

I further understand and agree that:

I. General

(1) Applicable Law. All sums advanced under this note are drawn from a fund created under Part E of Title IV of the Higher Education Act of 1965, as amended

XX. Schedule of Advances

The following amounts were advanced to me under this loan agreement on the dates indicated:

	Amount	Date	Signature of borrower
1	$1,125	09/07/93	Earnest N. Deavor
2	1,125	01/18/94	Earnest N. Deavor
3	1,125	09/06/94	Earnest N. Deavor
4	1,125	01/17/95	Earnest N. Deavor
5	1,500	09/05/95	Earnest N. Deavor
6	1,500	01/16/96	Earnest N. Deavor

Return original note to borrower when loan is paid in full

When a borrower has repaid a loan, the school must mark the note "Paid in Full," have it certified by an official of the school, and give the original note to the borrower. The school must keep a copy of the note for at least five years after the date the loan was repaid in full.

DISBURSING FUNDS

A school may not disburse funds for a payment period until the student enrolls for that period.

As discussed in the Introduction to Chapter Five, the General Provisions Final Rule published in the **Federal Register** on December 1, 1994 provides uniform cash management rules for all SFA programs. The provisions of the Final Rule, as they affect all SFA programs, are discussed in this handbook in Chapter Three, Section Three. The major

provisions that affect the disbursement of Federal Perkins Loans, effective beginning July 1, 1995, are the following:

- A school must notify a student or parent of the amount of funds the student can expect to receive from SFA programs, and how and when those funds will be paid.

Notification of funds to be received

- A school may choose to pay a student by electronic funds transfer (EFT) to the bank account designated by the student; however, the school must obtain an authorization from the student to disburse by EFT.

EFT transfer

- The earliest a school may *pay directly or credit the account* of an enrolled student is *10 days* before the first day of a payment period or period of enrollment; this provision is included in Section 668.165(c) of the December 1, 1994 Final Rule. A school may no longer credit the account of an enrolled student up to 3 weeks before the first day of classes.

Early payment of a Perkins Loan

- When a school disburses SFA funds by crediting a student's account, the school may assess only the following "allowable charges": (1) charges for tuition and fees; (2) charges for room and/or board if the student contracts with the school for room and/or board; (3) if the school obtains the permission of the student or parent, other cost-of-attendance charges included in the HEA (refer to the discussion in Chapter Three, Section Three).

Allowable charges when crediting a student's account

- The Final Rule also includes new provisions that apply to bank accounts containing SFA funds, such as the criteria for determining whether a school must keep SFA program funds in an interest-bearing account, and the criteria for requiring some schools to keep SFA funds in a separate bank account that contains no other funds. A detailed discussion of the new provisions is in Chapter Three, Section Three.

Rules for maintaining SFA program funds

The school must report the disbursement and amount of each Federal Perkins Loan or NDSL to a national credit bureau with which ED has an agreement. See Section Ten, "Credit-Bureau Reporting" for further details on complying with this requirement.

Keep in mind that if a school makes payments before the student begins attendance, it must accept the responsibility resulting from any overpayment. If a student should withdraw—or be expelled—before the first day of classes, for example, all funds disbursed are considered an overpayment and must be restored to the Federal Perkins Loan Fund. A student who never begins class is considered to have withdrawn.

Power of attorney

A school official may not obtain a student's power of attorney to endorse any check used to disburse funds or to sign for any loan advance unless ED has granted prior approval. Such a power of attorney (to allow a school to act on behalf of a student) would not be granted by ED unless the school could demonstrate that there is no one else who could act on behalf of the student (such as a relative, landlord, or member of the clergy, for example).

Part of loan each payment period at standard term schools

If a school is making a loan for a full academic year and the school uses standard academic terms, it must advance a portion of the loan during each payment period. Payment periods are defined as semesters, trimesters, or quarters. The amount to be advanced is usually determined by dividing the award by the number of payment periods in the academic year.

Pay at least twice a year at non-standard term schools

If the school does not use standard academic terms, it must advance funds at least twice during the academic year—once at the beginning and once at the midpoint. Normally, no more than half the loan may be advanced before the midpoint. A school must also advance funds at least twice during an eligible six-month training program.

For a student attending less than a full academic year, the amount to be advanced is determined by dividing the award by the number of payment periods the student will attend in the academic year. Only one payment is necessary if the total amount awarded to a student for an academic year under the Federal Perkins Loan Program is less than $501.

Uneven costs

If a student incurs uneven costs or resources during an academic year and needs additional funds during a payment period, the school may advance the additional amount *whether or not the school uses standard academic terms*. For example, a student will receive a $1,000 Federal Perkins Loan, and the student must spend $300 for books and supplies at the beginning of the school year. That $300 could be disbursed along with the first payment. To determine the first payment, subtract the extra amount (in this case, $300) from the total loan and divide the remainder by the number of payment periods. The regular amount for one payment period is then added to the extra amount to determine the initial payment.

If a school has a two-semester system, the payments would be determined as follows:

$1,000		Total loan
- 300		Additional costs at beginning of school
$ 700	÷	2 payment periods = $350 regular payment
$ 350		Regular payment
+300		Extra for books and supplies
$ 650		Total first disbursement
		($350 would be the second disbursement)

Within a payment period, the school may advance funds in whatever installments it determines will best meet the student's needs.

SECTION THREE: REPAYMENT

GRACE PERIODS

Initial grace period

A "grace period" is the period of time before the borrower must begin repaying the loan. An "initial grace period" is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

Grace period depends on when loan was made

For borrowers who have been attending at least half time, initial grace periods are either 6 or 9 consecutive months after the borrower drops below at least half-time study at an eligible institution or at a comparable school outside the U.S. The length of the initial grace period varies because of legislative changes to the Federal Perkins Loan Program over the years. These changes also result in different repayment terms, depending on when a borrower took out a loan. If a borrower has several loans, each is subject to the repayment terms in effect at the time the particular loan was made.

If a borrower requests a deferment to begin during the initial grace period, the borrower must waive his or her rights to the initial grace period in writing; the request for a deferment is not sufficient documentation for a school to waive the initial grace period without an acknowledgment from the borrower that he or she desires the initial grace period to be waived. (Deferments are discussed in Section Four, "Forbearance and Deferments.")

Repayment of a Federal Perkins Loan begins *9 months* after the borrower drops below at least half-time study. Repayment of an NDSL made before October 1, 1980, begins *9 months* after the borrower drops below at least half-time study. Repayment of an NDSL made on or after October 1, 1980, begins *6 months* after the borrower drops below at least half-time study. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period, calculated as 6 or 9 consecutive months.

A "post-deferment grace period" is the period of 6 consecutive months that immediately follows the end of certain periods of deferment and precedes

Post-deferment grace period

the date on which the borrower must resume repayment on the loan. Federal Perkins Loans and NDSLs made on or after July 1, 1993 have a 6-month post-deferment grace period after each of the authorized deferments, *including* the economic hardship deferment. Federal Perkins Loans and all NDSLs made on or after October 1, 1980, but before July 1, 1993, have a 6-month post-deferment grace period after each of the deferments that apply to those loans *except* after the deferment for hardship. Neither the deferment nor the grace period is included in determining the 10-year repayment period.

GRACE PERIODS
(Borrowers Attending at Least Half Time)

Type of Grace Period	Federal Perkins Loans	Direct Loans made on or after 10/1/80	Direct Loans made before 10/1/80
Initial	9 months	6 months	9 months
Post-Deferment	6 months	6 months	None

Grace period is continuous

For students attending at least half time, the initial grace period does not end until they cease to be enrolled at least half time for a *continuous* period of 6 or 9 months, whichever is applicable. For example, a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full initial grace period if he or she again leaves school or drops below half-time status.

Grace periods for more than one loan

If a borrower has received loans with different grace periods (and different deferments), the borrower must repay each loan according to the provisions in its promissory note; the borrower must pay the minimum monthly payments that apply to each loan that is not in a grace or deferment period.

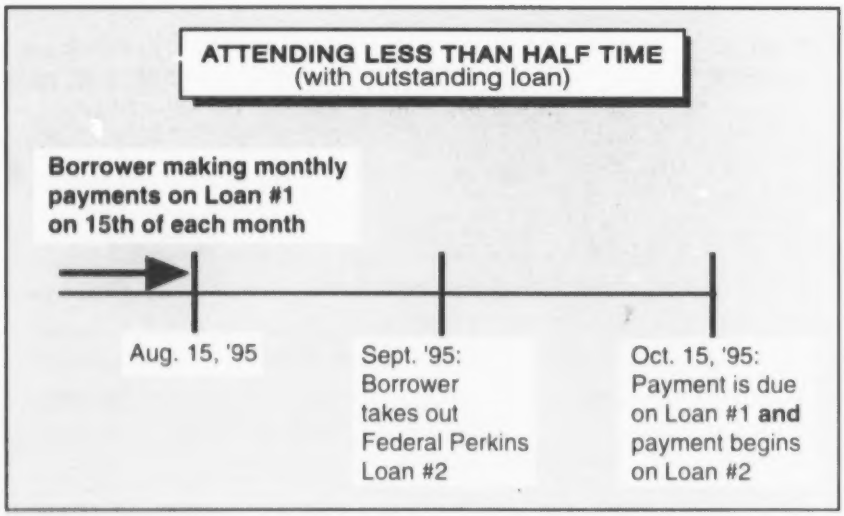
GRACE PERIOD FOR BORROWER ATTENDING LESS THAN HALF TIME

Less than half-time attendance—*with* outstanding loan(s)

A borrower who is attending *less than half time* and who has an outstanding Federal Perkins Loan or NDSL must begin repayment on an *additional* loan when the *next scheduled installment* of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

Less than half time attendance—with no outstanding loan(s)

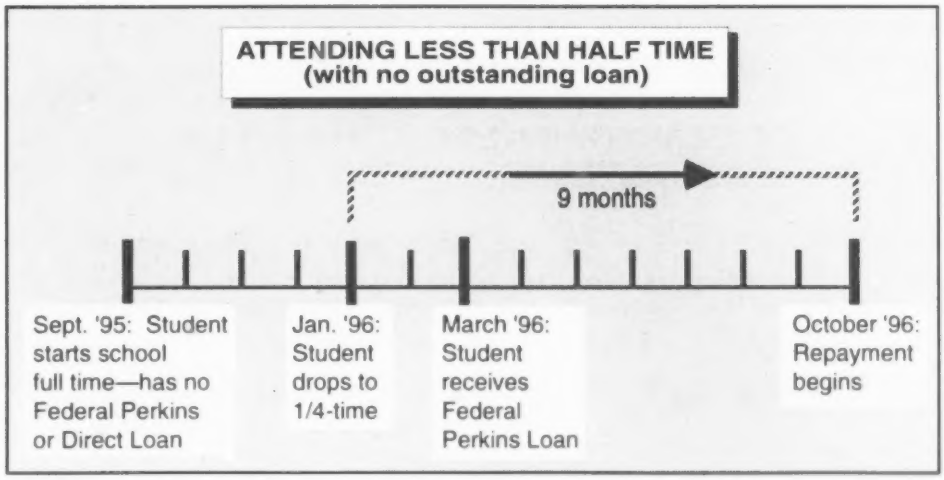
For example, suppose the borrower has been making monthly repayments on Federal Perkins Loan #1. He takes out Federal Perkins Loan #2 in September 1994. His next scheduled payment on Loan #1 is October 15. He will begin repaying loan #2 at the same time. *Remember, the repayment status of the outstanding loan determines the repayment status of the second loan.*


ATTENDING LESS THAN HALF TIME
(with outstanding loan)
Borrower making monthly payments on Loan #1 on 15th of each month
Aug. 15, '95
Sept. '95: Borrower takes out Federal Perkins Loan #2
Oct. 15, '95: Payment is due on Loan #1 and payment begins on Loan #2

A borrower who is attending less than half time and who has no outstanding Federal Perkins Loan or NDSL must begin repaying a new loan the *earlier* of—

- 9 months from the date the loan was made or
- the end of a 9-month period that began on the date the borrower ceased to be enrolled as a regular student on at least a half-time basis, and that period includes the date the loan was made.

For example, a student starts school full time in September 1995. She does not have an outstanding Federal Perkins Loan or NDSL. In January 1996, she drops to one-quarter time. In March, she receives a Federal Perkins Loan. Nine months from the date the loan was made will be December. Nine months from the time she dropped below half time is October, and this 9-month period includes the date the loan was made. As October is earlier than December, she must begin repayment in October.


ATTENDING LESS THAN HALF TIME
(with no outstanding loan)
9 months
Sept. '95: Student starts school full time—has no Federal Perkins or Direct Loan
Jan. '96: Student drops to 1/4-time
March '96: Student receives Federal Perkins Loan
October '96: Repayment begins

PREPAYMENT

No penalty for prepayment

The borrower may prepay all or part of the loan at any time, without penalty. Amounts repaid *during the academic year the loan was made* and *before the initial grace period has ended* are not considered prepayments, but *must be used to reduce the original loan amount.*

> **Example:** A borrower has received a $1,000 Federal Perkins Loan. His grandmother gives him $400 during the academic year in which the loan was made, and before the initial grace period has ended. The borrower applies the money toward his Federal Perkins Loan. The principal advanced to the borrower becomes $600. This is not considered a prepayment, because the original loan amount has been reduced.

If the borrower repays *more than the amount due* for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates it as an advance payment of the next regular installment.

REPAYMENT PLAN

Establish plan before student drops below half time

Before the student ceases to be at least a half-time student, the school must establish a repayment plan. The following provisions apply to the repayment plan:

- if the last scheduled payment would be $15 or less, the school may combine it with the next-to-last payment;
- if the installment payment for all loans made to a borrower by a school is not a multiple of $5, the school may round that payment to the next highest dollar amount that is a multiple of $5; and
- the school must apply any repayment received in the following order:

  1. collection costs;
  2. late charges (or penalty charges);
  3. accrued interest; and
  4. principal.

If a student receives loans at more than one school, the subsequent repayment of each loan is made (or default is attributed) to the school where the student received the loan.

Loans at more than one school

REPAYMENT SCHEDULE

At the time a borrower leaves school, the school must conduct an exit interview (see Section Six of this Chapter: Due Diligence—Loan Collection), during which a repayment schedule is provided to the borrower. The U.S. Department of Education recommends a repayment schedule that shows the principal and interest due on each installment and the amount left to be paid. This type of schedule is not a requirement; however, as a minimum, a repayment schedule should contain—

Repayment schedule provisions

- the number of repayments of principal or the number of equal repayments;
- the rate of interest;
- the date the first repayment is due; and
- the frequency of repayments.

DEVELOPING A REPAYMENT SCHEDULE

Interest on a loan must be computed at the rate of 5 percent per annum simple interest on the unpaid principal balance. Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary. Past due payments should be applied in the same order as other payments.

Calculating interest

To calculate the amount due in each payment over a period of 10 years, including principal and interest, a school may use the following table of "constant multipliers." The table is based on the assumption that the school will not exercise a minimum repayment option. Using this table will ensure that each of the borrower's payments is sufficient to cover the interest accruing between payments and that the loan will be repaid within the specified amount of time.

10-year repayment table

Annual Rate	Payment Frequency	Payments per Year	Total Payments	Constant Multiplier
5%	Monthly	12	120	.0106065
5%	Bimonthly	6	60	.0212470
5%	Quarterly	4	40	.0319214

A school may require a borrower to pay a minimum monthly repayment amount if the promissory note includes a minimum monthly repayment provision specifying the amount of the minimum monthly repayment, if the monthly repayment of principal and interest for a 10-year repayment period is less that the minimum monthly repayment, or if the borrower has received loans with different interest rates at the same school and the total monthly repayment would otherwise be less that the minimum monthly repayment. If the promissory note includes the optional minimum monthly repayment provisions, the school may require the borrower to repay a monthly minimum amount of $40—or $30 in the case of certain loans.

Proportional repayment under minimum $40 (or $30) option

If the total monthly repayment of more than one loan would otherwise be *less than $40* (or less than $30), and a school exercises the minimum $40 ($30) repayment option, the 10-year table of constant multipliers cannot be used, because the regulations require the $40 or $30 minimum repayment to be divided among the loans in the same proportion that the original loan principal of each loan bears to the total original principal of all loans.

For example, a borrower with Federal Perkins Loans of $1,500 and $1,000 has a total debt of $2,500. Using the "Constant Multiplier" table above, the total monthly repayment on the two loans would be less than $30:

$1,500 X .0106065 = $15.91 per month on loan #1

$1,000 X .0106065 = $10.61 per month on loan #2

$26.52 total payment per month

Since the monthly payment on the two loans is less than $40, the school may decide to exercise the minimum $40 repayment option. If it does, the monthly payment for each loan is calculated by dividing the original loan principal of the loan by the total original principal of all loans, as follows:

$1,500 ÷ $2,500 = .600000 X $40 = $24 per month on loan #1

$1,000 ÷ $2,500 = .400000 X $40 = $16 per month on loan #2

$40 total payment per month

This same proportional loan payment method is used to calculate loan payments to more than one school.

If the borrower has received loans with different grace periods and deferments, the school must treat each note separately, and the borrower must pay the minimum monthly payment that is applicable to each loan that is not in a grace or deferment period.

ESTABLISHING REPAYMENT DATES

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires.

Standard dates for quarterly repayment

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1 (see the chart below).

EXAMPLE OF FEDERAL PERKINS LOAN QUARTERLY BILLING
With Four Standard Repayment Dates

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	January 1
March 1	November 30	January 1
April 1	December 31	April 1
May 1	January 31	April 1
June 1	February 28	April 1
July 1	March 31	July 1
August 1	April 30	July 1
September 1	May 31	July 1
October 1	June 30	October 1
November 1	July 31	October 1
December 1	August 31	October 1

"Rolling" quarterly repayment schedule

Another type of repayment schedule is a "rolling" quarterly repayment schedule in which each borrower's first repayment is due exactly 3 months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period, or as prescribed in the terms of the promissory note.

Effect of deferment on repayment dates

For collection and bookkeeping purposes, it is preferable to have a fixed repayment date. Otherwise, if the borrower is entitled to a deferment, the school may have problems in computing the payments due. (See Section Four of this Chapter: Deferments.) Once the payment date has been established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date the borrower is out of deferment.

INTEREST RATES FOR LOANS MADE BEFORE 10/1/81

Interest rate depends on date loan was made

Interest rates charged on the unpaid balance of a Perkins Loan vary according to the date on which the loan was made. The interest rate is stated in the borrower's promissory note. The interest rate for loans made—

before 7/1/81 ..... was 3 percent per year;

between 7/1/81 and 9/30/81 ..... was 4 percent per year;

on or after 10/1/81 ..... is 5 percent per year.

Interest on loans made on or after October 1, 1981 is computed at the rate of five percent per annum simple interest on the unpaid principal balance. Interest should be computed from the date when the payment is received rather than from the due date; however, interest charges may be computed to the nearest first-of-the-month, or it may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule.

MINIMUM MONTHLY REPAYMENT AMOUNTS

If the monthly repayment over a 10-year repayment period is less than $40 for a loan made on or after October 1, 1992 to a borrower who has no outstanding loan balance on a Federal Perkins Loan, NDSL, or Defense Loan, and if the promissory note includes an optional $40 minimum monthly repayment provision, the school may require the borrower to pay at least $40 a month (or the equivalent in bimonthly or quarterly payments).

It is important to note that if the promissory notes include the optional *$30* minimum monthly repayment provision for loans made *before* October 1, 1992, the school must continue to use the $30 minimum for those borrowers. Students may need to make a higher payment than $40 (or $30), of course, to repay their debt by the end of 10 years.

The borrower may have received Federal Perkins Loan or NDSLs from more than one school. If only *one* school exercises the $40 (or $30) option when the total monthly repayments are less than $40 (or $30), that school receives the difference between $40 (or $30) and the repayment owed to the second school.

> **Example:** Suppose School A, which does not exercise the minimum repayment option, would receive $25 a month (the amount due under its established 10-year repayment plan). School B, which exercises the $40 option, would receive $15, the difference between $40 and the amount of principal and interest paid to School A.

If a borrower has obtained Federal Perkins Loan or NDSLs from more than one school and *each* exercises the minimum repayment option, the $40 or $30 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the total monthly repayment is *less than $40 (or $30)*, a school may exercise the minimum repayment options applicable to the respective loans. However, the maximum monthly repayment may not exceed $40 (or $30).

If the borrower owes funds to more than one school, he or she should contact any school that is exercising a minimum repayment option and provide the following information:

- the names of all other schools to which the borrower owes funds under the Federal Perkins Loan Program;
- the approximate amount of the indebtedness to each school; and
- any information that would help identify the loans—for example, the loan number and the dates of loan advances.

The school the borrower contacts should then contact the other schools and negotiate the amount each should receive from the borrower.

Different interest rates from the same school

If a borrower has loans with different interest rates from the same school, and the borrower's total monthly repayment is *at least* $40 (or $30) for all loans, the school may not exercise the minimum monthly payment on any loan. If the total monthly repayment would be *less than* $40 (or $30), the school may exercise the $40 (or $30) option, providing it has been included in the promissory note, and the school divides the repayment between accounts in proportion to the amount of principal advanced under each loan.

Different grace periods and deferments

As stated earlier, if a borrower has loans with different grace periods and deferments, the school must treat each note separately, and the borrower must pay the applicable minimum monthly payment for any loan that is not in a grace or deferment period.

Reduce payment amount due to hardship

A school may reduce a borrower's scheduled payments for up to one year at a time if the borrower is paying at least the $40 (or $30) minimum monthly payment amount and the school determines that the borrower is unable to make the scheduled payments due to hardship.

LENGTH OF REPAYMENT PERIOD

Usual maximum repayment period is 10 years

The term "repayment period" generally refers to the span of time the borrower has to repay his or her loan—usually a maximum of 10 years from the time repayment begins. (For the exception, see the discussions of "hardship" and "low-income individual" below.) Borrowers must repay their loans, plus interest, in quarterly, bimonthly, or monthly installments over a 10-year period. The length of a repayment period may be less than 10 years because of minimum monthly repayment requirements. If a borrower wants to repay the loan in graduated installments, he or she must request permission from the school; if the school agrees to this type of repayment, a graduated repayment schedule is prepared and submitted to ED for approval. If the ED approves the school's request, the borrower may use the graduated method of repayment.

A school may *extend* the repayment period if the borrower is encountering hardship due to prolonged illness or unemployment or because the borrower is a "low-income individual" (defined on the next page). Interest continues to accrue during any extension of a repayment period.

EXTENSION OF REPAYMENT FOR A LOW-INCOME INDIVIDUAL

Extension in the event of hardship

For NDSLs made on or after October 1, 1980 and for Perkins Loans, a school may extend the borrower's repayment period up to 10 additional years if, during the course of the repayment period, the school determines that the borrower qualifies as a "low-income individual." The school must review the borrower's status annually to determine whether he or she still qualifies as a low-income individual. If not, the borrower's repayment schedule must be amended so that the term of the amended schedule does not exceed the number of months remaining on the original repayment schedule, not counting the extension period.

The school may also *adjust* the repayment schedule to reflect the family income of a borrower who is a low-income individual. There are two ways the school can make this adjustment:

1. The school could require the borrower to pay a reduced amount for a limited time and then increase the payment amount to allow the borrower to catch up on payments. For example, the school could reduce the payment amount to $10 per month for six months and then increase it to $50 per month until the borrower catches up. In this way, the repayment period would not be extended.

2. The school could allow the borrower to pay $10 per month for a year and then resume normal payments. This type of adjustment would extend the repayment period.

The definition of the term "low-income individual" is based on the maximum income levels in the Income Protection Allowance (IPA) chart published annually in the **Federal Register**. The IPA chart for the 1995-96 award year was published May 17, 1994 (see the maximum income levels for the 1995-96 award year in the chart below).

1. For an unmarried borrower without dependents, a "low-income individual" is one whose total income for the *preceding calendar year* did not exceed 45 percent of the IPA for the *current award year* for a family of four with one in college. For the 1995-96 award year, an unmarried borrower without dependents is a low-income individual if his or her 1994 income was $7,718 or less.

2. For a borrower with a family that includes the borrower and any spouse or legal dependents, a "low-income individual" is one whose total family income for the *preceding calendar year* did not exceed 125 percent of the IPA for the *current award year* for a family equal in size to that of the borrower's family with one family member in college.

Low-Income Individual
Maximum 1994 Income Levels for 1995-96 Award Year
(derived from Income Protection Allowances published in the May 17, 1994 **Federal Register**)

Number of Family Members (including student)	1	2	3	4	5	6
Maximum 1994 Income Level	$7,718	$13,938	$17,363	$21,438	$25,300	$29,588

NOTE: For each additional family member, add $3,338.

DISPOSITION OF PROMISSORY NOTE AND REPAYMENT SCHEDULE

The school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan. Only authorized personnel may have access to the notes.

Attach repayment schedule to pre-1987 notes

Current promissory notes do not require that the repayment schedule be *attached* to the note. However, promissory notes prior to December 1, 1987 did include a requirement to attach the repayment schedule to the promissory note. Therefore, a school should be aware that if a promissory note has this requirement in the "Repayment" section of the note, the school must be careful to attach the repayment schedule to that note.

If the original promissory note is released to enforce repayment, the school must keep a certified true copy. A certified true copy is a photocopy (front and back) of the original promissory note that bears the following certification statement signed by the appropriate school official:

> "CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original Promissory Note.
>
> Signature: _____
>
> Title: _____
>
> Date: _____"

At the exit interview, the school must provide a copy of the signed promissory note and the signed repayment schedule to the borrower. If the school is unable to obtain a *signed* repayment schedule, it must provide the schedule the borrower is to follow in repaying the loan.

If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign or initial all approved changes in the note.

Borrower receives original note after loan is paid in full

When a loan has been repaid, the school should mark the note "PAID IN FULL," have it certified by an official of the school, with the date paid, and give or mail the original note to the borrower. The school must keep a copy of the note for at least five years after the date the loan was paid in full.

Because a borrower must reaffirm a Federal Perkins Loan that has been written off before he or she is eligible to apply for future federal student aid, ED recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the five-year record retention requirement.

SECTION FOUR: FORBEARANCE AND DEFERMENTS

FORBEARANCE

Definition of forbearance

If a borrower is willing but financially unable to make the required payments on a loan, he or she may request that the school grant "forbearance." Forbearance is the temporary cessation of payments, allowing an extension of time for making payments, or accepting smaller payments than were previously scheduled. Interest will continue to accrue during any period of forbearance. The borrower must request forbearance in writing, providing documentation that supports the borrower's claim that he or she is financially unable to make payments. Forbearance provisions are included in Section 674.33(d) of the Final Rule published in the **Federal Register** on November 30, 1994. Forbearance is available for all Perkins Loans and NDSLs, regardless of when they were made.

May grant forbearance one year at a time for up to 3 years

When the school receives the borrower's written request and supporting documentation, the school must grant the borrower forbearance for a period of up to one year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of three years. Both loan principal and any interest that accrues must be included in the forbearance, unless the borrower chooses to pay interest that accrues. The borrower and the school must agree upon the terms of forbearance in writing. The forbearance must be in the form of a temporary cessation of payments unless the borrower chooses one of the alternative types of forbearance (an extension of time for making payments, or accepting smaller payments).

Criteria for granting forbearance

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all Title IV SFA loans is equal to or greater than 20 percent of the borrower's "total monthly gross income" (defined on the next page). If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by three to determine the equivalent monthly

payment amount. The school must require the borrower to submit at least the following documentation:

Evidence the borrower must submit

- evidence showing the amount of the most recent total monthly gross income received by the borrower and
- evidence showing the amount of the monthly payments owed by the borrower for the most recent month for the borrower's Title IV SFA loans.

Definition of "total monthly gross income"

"Total monthly gross income," as defined in Section 674.2 of the November 30 Final Rule, is "The gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources."

Other reasons for granting forbearance

A school also must grant forbearance if it determines the borrower should qualify due to poor health or for other acceptable reasons, or if ED authorizes a period of forbearance due to a national military mobilization or other national emergency.

DEFERMENT

Definition of deferment

A borrower is entitled to have the repayment of a loan deferred under certain circumstances. A deferment is a period of time during which the borrower is not required to repay the loan principal. Interest will not accrue during a deferment (with the exception of hardship deferments, during which *interest does accrue*). For loans made *on or after* July 1, 1993, the hardship deferment has been replaced by the *economic hardship* deferment, which may not be granted in excess of 3 years; *interest does not accrue* during the new economic hardship deferment. Federal Perkins Loans and NDSLs share several deferment provisions in common; however, other deferment provisions are not applicable to every type of loan.

If a borrower is teaching or engaged in other services that qualify him or her for both deferment and cancellation, the loan deferment is considered to run concurrently with any period for which loan cancellation is granted.

Borrower obtains deferment form from school

Must file annually

Borrowers must apply for a deferment in writing. They may do this by obtaining a form from the business or student loan office of the school that made them the loan (or from the school's billing service, if it uses one). The form must be submitted to the school, along with whatever documentation the school requires, by the date that the school establishes. (ED does *not* approve or supply deferment forms.) The borrower must file a form at least once a year for as long as the deferment can be claimed. The borrower must immediately report any change in deferment status to the lending institution.

IN-SCHOOL DEFERMENT

A borrower may defer repayment of a Federal Perkins, Direct, or Defense loan if he or she is enrolled at least half time in an eligible institution. To receive a deferment based on at least half-time enrollment, also called an "in-school deferment," the student must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the U.S. approved by the U.S. Department of Education for this purpose. However, it is not a requirement that the school participate in the Federal Perkins Loan Program. Interest will not accrue during the deferment. A "regular student" is one who is enrolled for the purpose of obtaining a degree or certificate. If the borrower is attending as at least a half-time regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for 12 months.

At least half-time enrollment required

If a school ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

DEFERMENT OF FEDERAL PERKINS LOANS AND NDSLS MADE ON OR AFTER 7/1/93

For loans made on or after July 1, 1993, a borrower may defer loan repayment, and interest does not accrue while the borrower—

In-school deferments

- is enrolled and in attendance as a regular student in at least a half-time course of study at an eligible institution;
- is enrolled and in attendance as a regular student in a course of study that is part of an approved graduate fellowship program approved by ED (the borrower must provide certification that he or she has been accepted for or is engaged in full-time study in the school's graduate fellowship program);
- is engaged in graduate or post-graduate fellowship-supported study (such as a Fulbright grant) outside the United States;

Residency program in dentistry

- is serving in a residency program in dentistry (deferments may no longer be granted to a borrower while serving in a medical internship or residency program, except for a program in dentistry);

Rehabilitation training

- is enrolled in a course of study that is part of an approved rehabilitation training program for disabled individuals approved by ED;

Unemployment

- is seeking and is unable to find full-time employment (this deferment may not be granted in excess of 3 years);

Economic hardship

- is suffering an economic hardship, discussed below (this deferment may not be granted in excess of 3 years); or
- is engaged in certain types of service that qualifies the borrower for cancellation of the loan (refer to Section Five: "Cancellation").

Post-deferment grace period

A borrower is entitled to a 6-month grace period after each of the deferments that apply to Federal Perkins Loans and NDSLs (a "post-deferment" grace period). Neither the deferment nor the grace period is included in determining the 10-year repayment period.

ECONOMIC HARDSHIP DEFERMENT

3-year economic hardship deferment replaces hardship deferment

For Federal Perkins Loans and NDSLs made on or after July 1, 1993, a school may grant a deferment due to "*economic* hardship" up to a *maximum of 3 years* (a school may not grant a borrower unlimited deferments due to "hardship" for Federal Perkins Loans and NDSLs made on or after July 1, 1993). The Final Rule of November 30, 1994 includes the new economic hardship deferment provisions in Section 674.34(e).

> An eligible borrower is entitled to an economic hardship deferment for periods of up to one year at a time, that collectively do not exceed three years, if the borrower provides satisfactory documentation to the school showing that the borrower—
>
> 1. has been granted an economic hardship deferment under either the FDSL or FFEL programs for the period of time for which the borrower has requested the deferment for his or her Federal Perkins Loan;
> 2. is receiving federal or state public assistance, such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, or state general public assistance;
> 3. is working full time and is earning a total monthly gross income that does not exceed the greater of—
>
>   a) the monthly earnings of an individual earning the federal minimum wage; or
>
>   b) an amount equal to 100 percent of the poverty line for a family of two as determined in accordance with section 673(2) of the Community Service Block Grant Act;

4. is not receiving total monthly gross income from all sources that is more than twice the amount in (a) or (b) above and, after deducting an amount equal to the borrower's monthly payments on federal postsecondary education loans, the remaining amount of income does not exceed the amount specified in (a) or (b) above; or

5. is working full time and has a federal educational debt burden that equals or exceeds 20 percent of the borrower's adjusted gross income, and the difference between the borrower's adjusted gross income minus such burden is less than 220 percent of the greater of—

   a) the annual earnings of an individual earning the federal minimum wage; or

   b) an amount equal to 100 percent of the poverty line for a family of two, determined in accordance with section 673(2) of the Community Service Block Grant Act.

For information on the minimum wage, contact the Wage and Hour Division of the U.S. Department of Labor. The telephone number is (202) 219-7043.

The 1994 poverty level for a family of two was $12,300 for Alaska, $11,320 for Hawaii, and $9,840 all other states.

For additional information on the poverty level for a family of two, contact the Office of the Assistant Secretary of the U.S. Department of Health and Human Services. The telephone number is (202) 690-6141.

Documentation for economic hardship

To support a borrower's eligibility for an initial economic hardship deferment based on the criteria in option (4) above, the school must collect at least the following documentation:

- evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources; and

- evidence showing the most recent monthly amount due on the borrower's federal postsecondary education loans, as determined by the method described below.

Determining monthly amount due on education loans

To determine the monthly amount due on federal postsecondary education loans, the school must count only the monthly amount that the borrower

would have owed on each loan *if it had been scheduled to be repaid in 10 years* from the date the loan entered repayment; the school should disregard the actual repayment schedule or the actual monthly payment amount (if any) that the borrower would owe during the period for which the economic hardship deferment is requested.

To qualify for a *subsequent* period of deferment that begins less than one year after the end of the deferment described in option (3) or (4) above, the school must require the borrower to submit a copy of his or her federal income tax return if the borrower filed a tax return within eight months prior to the date the deferment is requested.

Working full time

For purposes of qualifying under option 3 or 5 of the economic hardship deferment, a borrower is considered to be "working full time" if he or she is expected to be employed for at least three consecutive months at 30 hours per week.

Rehabilitation training program deferment

To qualify for a deferment for study in a rehabilitation training program, the borrower must be receiving, or be scheduled to receive, services under a program designed to rehabilitate disabled individuals and must provide the school with the following documentation:

1. a certification from the rehabilitation agency that the borrower is either receiving or scheduled to receive rehabilitation training services from the agency and

2. a certification from the rehabilitation agency that the rehabilitation program Is licensed, approved, certified, or otherwise recognized by one of the following entities as providing rehabilitation training to disabled individuals:

    - a state agency with responsibility for vocational rehabilitation programs;
    - a state agency with responsibility for drug abuse treatment programs;
    - a state agency with responsibility for mental health services programs;
    - a state agency with responsibility for alcohol abuse treatment programs; or
    - the Department of Veterans Affairs.

3. The rehabilitation agency must also certify that the rehabilitation program provides or will provide the borrower with rehabilitation services under a written plan that—

   - is individualized to meet the borrower's needs;
   - specifies the date on which the services to the borrower are expected to end; and
   - is structured in a way that requires a substantial commitment by the borrower to his or her rehabilitation. ED considers a substantial commitment by the borrower to be a commitment of time and effort that would normally prevent an individual from engaging in full-time employment either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

DEFERMENT OF FEDERAL PERKINS LOANS MADE BEFORE 7/1/93

In-school deferment

A borrower of a Federal Perkins Loan made before July 1, 1993, may defer repayment if he or she is enrolled at least half time as a regular student in an eligible institution of higher education (or a comparable institution outside the U.S. approved by the U.S. Department of Education for this purpose). Additional information about the "In-School Deferment" is included in the previous discussion about loans made on or after July 1, 1993.

3-year deferments

A borrower of a Federal Perkins Loan made before July 1, 1993, may defer repayment for up to 3 years and interest will not accrue while the borrower is—

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps;
- a Peace Corps volunteer;
- a volunteer under Title I, Part A of the Domestic Volunteer Service Act of 1973 (ACTION programs);

Comparable Volunteer Service

A borrower is considered to be providing service comparable to Peace Corps or ACTION service if he or she meets the following five criteria:

1. The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;
2. The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;
3. The borrower does not receive compensation that exceeds the rate prescribed under section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide health, retirement, and other fringe benefits to the volunteer that are substantially equivalent to the benefits offered to other employees of the organization;
4. The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund-raising to support religious activities; and
5. The borrower has agreed to serve on a full-time basis for a term of at least one year.

Temporary total disability

"Temporarily totally disabled," with regard to the borrower, means the inability due to an injury or illness to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

"Temporarily totally disabled," with regard to a disabled spouse or other dependent of a borrower, means requiring continuous nursing or other services from the borrower for a period of at least 3 months due to illness or injury.

- a full-time volunteer in service for a tax-exempt organization that ED has determined is comparable to Peace Corps or ACTION service (see the criteria in the box above); or
- temporarily totally disabled or unable to work because he or she must care for a *spouse or other dependent* who is so disabled (see the definitions in the box above).

An affidavit from a qualified physician is required to prove disability. The definition of "dependent" for the temporary total disability deferment is the same as that used in the application for federal student aid—a child who receives more than half support or other person who lives with and receives more than half support from the borrower.

A borrower of a Federal Perkins Loan made before July 1, 1993, who is serving in a medical internship or residency program may not defer repayment of a Federal Perkins Loan *based on the borrower's full-time or half-time study*; however, the borrower is eligible for an *internship deferment* (described on the next page) for up to 2 years.

Internship deferment

A borrower of a Federal Perkins Loan made before July 1, 1993, may defer repayment for up to 2 years and interest will not accrue while the borrower is serving an eligible internship. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program; in addition, it must meet the criteria of *either* a *or* b below:

a. The successful completion of the internship must be required by a State licensing agency as a prerequisite for certification of the individual for professional practice or service. For this type of eligible internship, the borrower must provide the school with the following certifications:

   - a statement from an official of the appropriate State licensing agency that the successful completion of the internship is required by a State licensing agency as a prerequisite for certification for professional practice or service;
   - a statement from the organization where the borrower will be an intern, certifying that a bachelor's degree must be attained in order to be admitted in the program;
   - a statement from the organization where the borrower will be an intern that the borrower has been accepted into its internship program; and
   - the dates when the borrower is expected to begin and complete the program.

b. The internship or residency program must lead to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. For this type of eligible internship, the borrower must provide the school with a statement from an authorized official of the internship program certifying that—

   - a individual must have a bachelor's degree in order to be admitted in the program;
   - the borrower has been accepted into its program; and
   - the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

A borrower of a Federal Perkins Loan made before July 1, 1993, may also defer repayment and interest will not accrue during a period of—

1-year "working mother" deferment

- up to 1 year if the borrower is a mother of a preschool-age child, provided the mother is going to work (or going back to work) at a salary that is no more than $1.00 in excess of the minimum hourly wage or

6-month "parental leave" deferment

- up to 6 months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. (This deferment is called "parental leave.") The borrower must be unemployed and not attending school and must apply for deferment within 6 months of leaving school or dropping below half-time status.

Hardship deferment

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). However, interest will continue to accrue during the deferment.

Post-deferment grace period

A borrower is entitled to a 6-month grace period after each of the deferments that apply to Federal Perkins Loans (a "post-deferment" grace period) except after the deferment for hardship. Neither the deferment nor the grace period is included in determining the 10-year repayment period.

DEFERMENT OF NDSLS MADE BETWEEN 10/1/80 AND 7/1/93

The following deferment provisions are applicable to NDSLs made on or after October 1, 1980, but before July 1, 1993:

At least half-time attendance

A borrower may defer repayment if he or she is enrolled at least half time as a regular student in an eligible institution of higher education or a comparable institution outside the U.S. approved by the U.S. Department of Education for this purpose.

3-year deferments

A borrower may defer repayment for up to 3 years and interest will not accrue while the borrower is—

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;

- a Peace Corps volunteer;
- a volunteer under Title I, Part A of the Domestic Volunteer Service Act of 1973 (ACTION programs);
- a full-time volunteer in service for a tax-exempt organization ED has determined is comparable to Peace Corps or ACTION (see the volunteer service criteria in the box on page 44); or
- temporarily totally disabled or unable to work because he or she must care for a *spouse* who is so disabled (see the definitions in the box on page 44). A physician's statement is required to prove disability.

2-year deferments

A borrower of an NDSL made on or after October 1, 1980, and before July 1, 1993, may defer repayment for up to 2 years and interest will not accrue while the borrower is serving an eligible internship. An "eligible internship" is one that requires the borrower to hold at least a bachelor's degree before beginning the internship program; in addition, the completion of the internship must be required by the State licensing agency as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school with the following certifications:

- a statement from an official of the appropriate State licensing agency that the completion of the internship is required by the State licensing agency as a prerequisite of certifying for professional practice or service;
- a statement from the organization where the borrower will be an intern, certifying that a bachelor's degree must be attained in order to be admitted in the program;
- a statement from the organization where the borrower will be an intern, that the borrower has been accepted into its internship program; and
- the dates when the borrower is expected to begin and complete the program.

Hardship deferment

A borrower may defer repayment for hardship (for example, if the borrower is facing a prolonged period of illness or unemployment). However, interest will continue to accrue during the deferment.

Post-deferment grace period

For all NDSLs made on or after October 1, 1980, and before July 1, 1993, a borrower is also entitled to a 6-month post-deferment grace period after each of the deferments that apply to those loans except for hardship deferments. Neither the deferment nor the grace period is included in

Deferment provisions for loans made before 10/1/80

determining the 10-year repayment period. For information on deferment provisions for loans made before October 1, 1980, see the *1994-95 Federal Student Financial Aid Handbook* or Section 674.37 of the regulations.

DEFERMENT VS. POSTPONEMENT FOR SERVICE THAT WILL QUALIFY FOR LOAN CANCELLATION

Deferment of repayment is applicable for periods of service that qualify the borrower for cancellation of a loan made on or after July 1, 1993. A school may grant a deferment of repayment for up to 12 months at a time. Interest does not accrue during a period of deferment. Deferment is an entitlement to the borrower; therefore, regardless of the length of time that the service is performed, repayment does not begin until six months after the cessation of service.

Postponement in anticipation of cancellation is applicable only during periods of service that qualify the borrower for cancellation of a loan made before July 1, 1993. A school may grant postponement of repayment for up to 12 months at a time. Interest continues to accrue during the period of postponement. Postponement of repayment is not an entitlement to the borrower; therefore, should the borrower not complete the period required to receive cancellation benefits, any payments that had been postponed during the partial period of service become due and payable immediately upon the cessation of service.

If a borrower has received more than one type of loan (Federal Perkins Loan and NDSL), but is not eligible for cancellation benefits on both types, the school may defer loan repayments (or postpone loan repayments for loans made prior to July 1, 1993) *only* on the loan(s) for which cancellation will be available.

A school may not exercise the minimum monthly repayment provisions on a note when the borrower has received a partial cancellation for the period covered by a deferment. (If the school was originally exercising the minimum repayment option, it must cease doing so.) If a borrower has received more than one loan, but not all can be cancelled, the amount due on the uncancelled loan(s) is the amount the borrower would normally pay.

THE CONCURRENT DEFERMENT PERIOD

If a borrower is teaching or engaged in other services that qualify him or her for both deferment and cancellation, the loan deferment is considered to run concurrently with any period for which loan cancellation is granted.

DEFERMENT AND DEFAULT

Deferment when loan is in default

A borrower in default is *not entitled* to a deferment, but a school *may* grant a deferment if the borrower signs a new repayment agreement. The policy to permit deferments on defaulted loans applies to *all* requests for deferment received after February 3, 1988 (the effective date of the December 1, 1987 campus-based regulations), *regardless of the date the loan was made*. The borrower must file for deferment on time and provide satisfactory documentation that he or she qualifies for the deferment. *Schools are not required to grant deferments on loans in default*; however, if they do, they are expected to calculate past-due, accrued interest. If schools believe this is unduly burdensome, they may deny deferments.

Deferment when loan is accelerated

Once the borrower misses a scheduled payment, he or she is in default for purposes of determining the borrower's status for new federal student aid. However, if the borrower enters into a new written repayment agreement, the school may grant a deferment *even if the school has accelerated the loan*. However, the school would have to de-accelerate the loan. ED encourages schools to require the borrower to repay immediately some or all of the past-due amounts as a condition of the new agreement—thus "curing" the default. "Past-due amounts" are those scheduled to be repaid before the date the school determined that grounds for a deferment existed. Past-due amounts include late charges, penalty charges, and collection costs.

DEFERMENT VS. IN-SCHOOL ENROLLMENT STATUS

At times a borrower may neglect to notify a school that he or she has continued studies at least half time at another school prior to completion of the initial grace period. As the school would not have this information, the financial aid administrator would assume that the student's repayment period had started and might demand payment from the borrower. In such a case, borrowers often request relief in terms of a deferment, rather than on the basis of their student status. Actually, as the borrower was still enrolled at least half time, and had never completed the initial grace period, the term "deferment" would not be appropriate, as the repayment period had not started. The borrower may submit proof at any time—even after a loan has been accelerated—that the initial grace period had never been completed and that the repayment period should have begun later than the date originally calculated. *The school must recalculate that date if it receives this proof.* The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually began.

Note that the borrower remains responsible for payments that would have been due in any event, and the school is not obligated to grant a deferment for any past-due payments

SECTION FIVE: CANCELLATION

A borrower may have all or part of his or her loan (including interest) cancelled for engaging in public service such as teaching, service in the education component of a Head Start program, service in the Peace Corps or ACTION, or service in the military. Cancellation is also granted in case of the borrower's death, total and permanent disability, or—in some cases—bankruptcy.

The promissory notes in "Dear Colleague" letter CB-93-9, dated July 1993, incorporate changes in loan cancellation provisions required by The Higher Education Amendments of 1992 for Federal Perkins Loans and NDSLs made on or after July 23, 1992.

Several new definitions that apply to cancellation provisions were added in the Final Rule published in the **Federal Register** on November 30, 1994. The new definitions are discussed at the end of this section of the Handbook, beginning on page 6-63.

"Dear Colleague" letter CB-93-9, July 1993

U.S. Army Loan Repayment Program

Although it is not a cancellation, it's useful to know that the U.S. Army offers a loan *repayment* program as an enlistment incentive. If the borrower of a Federal Perkins Loan or NDSL (or Stafford Loan) serves as an enlisted person in the U.S. Army, in the Army Reserves, or in the Army National Guard, the Department of Defense will repay a portion of the loan. For more information, the student should contact his or her local Army recruiting office. This is a recruitment program and does not pertain to an individual's prior service. (At the time this *Handbook* was written, the Army was the only branch of the Armed Forces offering this repayment program.)

COMMON CANCELLATION PROCEDURES

Although cancellation provisions vary, depending on whether the borrower has a Federal Perkins Loan or NDSL, the following procedures apply to any loan:

- The borrower must apply for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school's billing service, if it uses one). ED does not approve or supply cancellation forms. The form must be submitted to the school on time. The borrower must provide any documentation the school requests to show that he or she qualifies for cancellation. (For appropriate documentation, see the individual cancellation category in this section.)

- It is the school's responsibility to determine, based on that documentation, whether borrowers are entitled to have any portion of their loans cancelled. This responsibility cannot be delegated.

- No portion of any loan may be cancelled for services the borrower performed before the date the loan was disbursed, or during the same period he or she received the loan.

- Regardless of the repayment status of a loan, the school that was the lender must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability.

- Periods of loan deferment for public service that is also qualifying service for cancellation benefits is considered to run concurrently with any period for which a loan cancellation for military, Peace Corps, or ACTION program service is granted.

- Defaulted loan amounts are not eligible for cancellation unless the only reason for the default was the borrower's failure to file a cancellation request on a timely basis. However, if the school has accelerated the account by the time the borrower files the necessary cancellation request forms, only eligible service performed *prior* to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed *after* the date of acceleration.

- No repayment made by a borrower during a period for which the borrower qualified for a cancellation may be refunded, unless

the borrower made the payment because of institutional error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

- No borrower who has received an education benefit under Subtitle D of Title I of the National and Community Service Act of 1990 may receive a cancellation of a Federal Perkins Loan or NDSL.

CANCELLATION PROVISIONS COMMON TO ALL FEDERAL PERKINS LOANS AND NDSLS MADE AFTER 7/1/87

The borrower of a Federal Perkins Loan or NDSL made after July 1, 1987 is eligible to have up to 100 percent of the loan cancelled for qualifying service as—

Teaching in low-income schools

- a full-time teacher in a public or nonprofit elementary or secondary school serving students from *low-income*[1] families; (an official Directory of designated low-income schools is published annually by ED);

Teaching handicapped children—loans before 7/23/92

- a full-time teacher of *handicapped students* in a public or nonprofit elementary or secondary school. The majority of the students the borrower teaches must be handicapped children.[2]

The cancellation rate per completed academic year of teaching is—

Cancellation rates

- 15 percent of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20 percent of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30 percent of the original principal loan amount—plus any interest that may have accrued during the year—for the fifth year.

Service in Head Start

A Federal Perkins Loan or NDSL borrower who received the loan on or after July 1, 1987, is entitled to cancellation of up to 100 percent of the loan for qualifying service as a full-time staff member in the educational

[1] See the definition of this term at the end of this Section.

[2] For loans made on or after 7/23/92, this provision has been replaced by the "special education teacher" cancellation provision.

part of a pre-school program carried out under the Head Start Act; the cancellation rate is 15 percent of the original principal loan amount—plus the interest that accrued during the year—for each complete school year.

LAW ENFORCEMENT CANCELLATION PROVISION—SPECIFIC TO LOANS MADE ON OR AFTER NOVEMBER 29, 1990

Law enforcement

A borrower is entitled to cancellation of up to 100 percent of a Federal Perkins Loan or NDSL made on or after November 29, 1990, for full-time service as a qualifying law enforcement or corrections officer. The rates of cancellation for each completed year of service are the same as teachers receive:

Cancellation rates

- 15 percent of the principal—plus any interest that may have accrued during the year—for each of the first and second years;
- 20 percent of the principal—plus any interest that may have accrued during the year—for each of the third and fourth years; and
- 30 percent of the principal—plus any interest that may have accrued during the year—for the fifth year.

CANCELLATION PROVISIONS SPECIFIC TO FEDERAL PERKINS LOANS AND NDSLS MADE ON OR AFTER 7/23/92

Several new loan cancellation provisions were added by the Higher Education Amendments of 1992, and these provisions are included in the November 30 Final Rule. In addition to being eligible for the previously mentioned cancellation provisions, a borrower of a Federal Perkins Loan or NDSL made on or after July 23, 1992, is eligible to have up to 100 percent of the loan cancelled for teaching or qualifying employment as—

Special education teacher

- a full-time special-education teacher, including teachers of *infants, toddlers, children, or youth with disabilities** in a public or other nonprofit elementary or secondary school system;

Teaching math, science, languages

- a full-time teacher in a public or other nonprofit elementary or secondary school in the fields of mathematics, science, foreign languages, or bilingual education or in any other *field of expertise** that is determined by a state education agency to have a shortage of qualified teachers in that state;

* See the definitions of these terms at the end of this Section.

- a full-time *nurse** or *medical technician** providing health care services;

Health care

- a full-time *qualified professional provider of early intervention services** in a public or other nonprofit program under public supervision; or

Early intervention

- a full-time employee of an eligible public or private nonprofit child or family service agency who is providing or supervising the provision of services to *high-risk children** who are from *low-income communities** and the families of such children.

Employee of child or family service agency

For these cancellation provisions, a borrower's loan is cancelled at the rates shown below for each completed year of full-time employment or services or, in the case of teachers, for each full academic year of full-time teaching:

Cancellation rates

- 15 percent of the original principal loan amount—plus any interest that may have accrued during the year—for each of the first and second years;
- 20 percent of the original principal loan amount—plus any interest that may have accrued during the year—for each of the third and fourth years; and
- 30 percent of the original principal loan amount—plus any interest that may have accrued during the year—for the fifth year.

"AREA OF HOSTILITIES" MILITARY SERVICE CANCELLATION PROVISION—APPLIES TO ALL LOANS MADE ON OR AFTER 7/1/72

Military service

A borrower is also entitled to cancellation of up to *50 percent* of a Federal Perkins Loan or NDSL for service in the U.S. Armed Forces in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. The cancellation rate for every complete year of qualifying service is 12 1/2 percent of the original principal loan amount— plus any interest that may have accrued during the year.

* See the definitions of these terms at the end of this Section.

CANCELLATION PROVISIONS SPECIFIC TO FEDERAL PERKINS LOANS

Federal Perkins only—service in Peace Corps or ACTION programs

For *Federal Perkins Loans only*, a borrower is entitled to cancel up to *70 percent* of the loan for service as a Peace Corps volunteer or volunteer under the Domestic Volunteer Service Act (ACTION programs); an authorized official of the Peace Corps or ACTION program must sign the borrower's cancellation form, certifying the borrower's service. The cancellation rate per year of service is—

Cancellation rates

- 15 percent of the original principal loan amount—plus any interest that may have accrued during the year—for each of the first and second 12-month periods of service and
- 20 percent of the original principal loan amount—plus any interest that may have accrued during the year—for each of the third and fourth 12-month periods of service.

DEATH, TOTAL AND PERMANENT DISABILITY, AND BANKRUPTCY CANCELLATION PROVISIONS—APPLICABLE TO ALL LOANS

Death/ disability

Regardless of the repayment status of a loan, the school that was the lender must cancel the loan upon receipt of proof of the borrower's death or upon the school's approval of a borrower's request for cancellation because of a permanent and total disability. A determination of permanent and total disability must be based on medical evidence certified by a physician (a medical doctor or doctor of osteopathy, but not a doctor of naturopathic medicine). In some cases, a borrower's Perkins Loan or NDSL may be discharged in bankruptcy. For more information, see "Criteria for Receiving a Bankruptcy Cancellation" on page 6-61 of this section.

CRITERIA BORROWER MUST MEET FOR TEACHER CANCELLATION

Teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be teaching in a *public or other nonprofit elementary or secondary school system* and must be *directly employed* by the school system. There is no provision for cancelling Federal Perkins Loans or NDSLs for teaching in postsecondary schools.

Definition of teacher

A teacher is a person who provides—

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- direct classroom teaching;
- classroom-type teaching in a non-classroom setting; or

Direct educational services to students

- educational services to students directly related to classroom teaching such as school librarians or school guidance counselors.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

A person who provides one of the following services does not qualify as a teacher unless that person is licensed, certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services, and the services provided by the individual are part of the educational curriculum for handicapped children:

- speech and language pathology and audiology;
- physical therapy;
- occupational therapy;
- psychological and counseling services; or
- recreational therapy.

For a borrower to be considered as "teaching in a field of expertise," the majority of classes taught must be in the borrower's field of expertise.

For a borrower to be considered as a "full-time professional provider of early intervention services," the borrower must be employed in a public or nonprofit program under public supervision. If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

The cancellation form the borrower files must contain a signature from an official in the school system or agency, certifying the borrower's service.

Teaching full time for a full academic year

The borrower must teach full time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day in order to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher. An "academic year or its equivalent" for elementary and secondary schools and special education is defined as one complete school year or two half years from different school years, excluding summer sessions, that are complete and consecutive and generally fall within a 12-month period.

Incomplete academic year

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower's employer must consider the borrower to have fulfilled his or her contract for the academic year.

Cancellation for a combination of teaching

A borrower who is simultaneously teaching part time in two or more schools may request a cancellation based on teaching full time if he or she can obtain appropriate certification that he or she is teaching full time. The postsecondary school that made the loan may grant the cancellation if an official at one of the schools where the borrower taught certifies that the borrower taught full time for a full academic year. For example—

- under a consortium agreement, a borrower may be employed by the consortium and teach at member schools; the consortium would provide the certification of full-time teaching;
- two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement. The employing school would certify the borrower's full-time teaching status; or
- a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily be determined that the teaching was full time.

A cancellation based on teaching in a school serving students from *low-income* families may be granted only if the borrower taught in an eligible school that is listed in the "Directory of Designated Low-Income Schools for Teacher Cancellation Benefits" published each year by ED. ED compiles this list of low-income schools after consulting with each State's educational agency and sends a copy of the list to all schools that participate in the Federal Perkins Loan Program. ED considers a school to be a "low-income" school only if it is in a school district that qualifies for federal funding based on the large number of low-income families in the district, and more than 30 percent of the school's enrollment is made up of children from low-income families. The official 1994-95 Directory was issued to schools with "Dear Colleague" letter CB-94-24, October 1994.

Cancellation if school is removed from list

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and

remain eligible to receive a cancellation for service in that school (refer to Section 674.54 of the November 30, 1994 Final Rule). If a list is not available before May 1 of any year, ED may use the previous year's list to make the service determination. Information about specific schools listed in the Directory may be obtained from:

Patricia Reese
Campus-Based Programs Systems Division
Program Systems Service
Student Financial Assistance Programs
U.S. Department of Education
600 Independence Avenue, SW, (ROB-3, Room 4621)
Washington, DC 20202-5453
Telephone: (202) 708-5182

Teaching at BIA schools

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Federal Perkins Loans and NDSLs. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.

For Federal Perkins Loans or NDSLs made *on or after* July 23, 1992, a borrower may receive a cancellation as a full-time special education teacher (including teachers of infants, toddlers, children, or youth with disabilities) in a public or other nonprofit elementary or secondary school system.

For Federal Perkins Loans or NDSLs made *before* July 23, 1992, a borrower may receive a cancellation for full-time teaching of handicapped children for a full academic year or its equivalent. The borrower qualifies for this cancellation only if a majority of the students whom the borrower teaches are handicapped children. Handicapped children include those who are mentally retarded, hard of hearing, deaf, speech and language impaired, visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, have traumatic brain injury or specific learning disabilities, or are otherwise health-impaired children, who require special education and related services because of their disability.

There are no cancellation provisions for service in elementary or secondary schools, *other than* the following:

- teaching in schools serving low-income families;
- teaching mathematics, science, foreign languages, or bilingual education;

- teaching in a field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state;
- teaching as a special education teacher; or
- providing early intervention services.

CRITERIA BORROWER MUST MEET FOR MILITARY CANCELLATION

The borrower must be serving a period of full-time active duty in the U.S. Armed Forces. "Armed Forces" means the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard. A member of the National Guard or the Reserves serving a period of full-time active duty in the U.S. Armed Forces is also eligible to receive a military deferment. For a Federal Perkins Loan or NDSL cancellation, the service in the U.S. Armed Forces must be in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. For Defense Loan cancellation, the service does not have to be in an area of hostilities or area of imminent danger. The borrower's Commanding Officer must certify when the borrower served. The cancellation rate of 12^1/2 percent of the loan is for each *complete* year of service; service for less than a complete year (including any fraction of a year beyond a complete year) does not qualify.

CRITERIA BORROWER MUST MEET FOR HEAD START CANCELLATION

A "full-time staff member" is someone who is regularly employed in a full-time professional capacity to carry out the educational part of a Head Start program. The program must operate for a full academic year, or its equivalent, and the borrower's salary may not be more than that of a comparable employee working in the local educational agency. An authorized official of the Head Start Program must sign the borrower's cancellation form, certifying the borrower's service.

CRITERIA BORROWER MUST MEET FOR LAW ENFORCEMENT OR CORRECTIONS OFFICER CANCELLATION

In order to establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that (a) the borrower's employing agency is eligible and that (b) the borrower's position is essential to the agency's primary mission (see the next page).

a. A local, state, or federal agency is an eligible employing agency if it is public-funded and its activities pertain to crime prevention, control, or reduction or to the enforcement of the criminal law. Such activities include, but are not limited to, police efforts to prevent, control, or reduce crime or to apprehend criminals; activities of courts having criminal jurisdiction and related agencies; activities of corrections, probation, or parole authorities; and problems relating to the prevention, control, or reduction of juvenile delinquency or narcotic addiction. Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible.

b. In order for the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary mission. The agency must be able to document the employee's functions.

NOTE: Persons whose official responsibilities are supportive, such as those that involve typing, filing, accounting, office procedures, purchasing, stock control, food service, or building, equipment or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation regardless of where these functions are performed. Also, a borrower employed as a public defender does not qualify for cancellation benefits under this provision.

CRITERIA BORROWER MUST MEET FOR DISABILITY CANCELLATION

Any Federal Perkins Loan, NDSL, or Defense Loan will be cancelled if the borrower dies or becomes permanently and totally disabled after receiving the loan. Permanent and total disability is the inability to work and earn money or to attend school because of an impairment that is expected to continue indefinitely or to result in death.

If a borrower becomes permanently and totally disabled, the school must decide whether to cancel the loan based on medical evidence (certified by a physician) that the borrower or his or her representative must furnish. This evidence must include statements from all physicians, hospitals, or agencies concerned with the case and should include certification that the criteria for permanent and total disability have been met. ED does not approve or supply cancellation forms. In the case of a borrower's death, the school must receive a death certificate or other proof as required under state law.

CRITERIA FOR RECEIVING A BANKRUPTCY CANCELLATION

A Federal Perkins Loan, NDSL, or Defense Loan will be written off for bankruptcy if the school receives an official notice of discharge from a bankruptcy court (unless the school is required to oppose the discharge—for more information, see "Bankruptcy" in Section Eight of this Chapter). Note that a borrower is no longer required to reaffirm a loan discharged in bankruptcy before he or she is eligible to apply for additional student aid, including loans. This is a provision of the Bankruptcy Amendments Act of 1994, effective October 22, 1994.

REIMBURSING AMOUNTS CANCELLED

For Federal Perkins Loans and NDSLs, ED will reimburse each school every award year for the principal and interest cancelled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, and bankruptcy. The school must deposit in its Fund the amount reimbursed.

DEFINITIONS

For Federal Perkins Loans or NDSLs made *on or after* July 23, 1992, new cancellation provisions include several new terms that have not been defined previously in the regulations. These definitions are incorporated into Section 674.51 of the Final Rule of November 30, 1994. Definitions of the new terms used in the cancellation provisions for borrowers who perform certain kinds of public service are as follows:

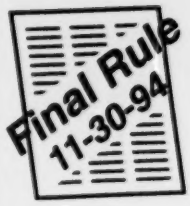
Children and youth with disabilities: Children and youth from ages 3 through 21, inclusive, who require special education and related services because they have disabilities as defined in section 602(a)(1) of the Individuals with Disabilities Education Act;

Section 602(a)(1) defines "handicapped children" as children who are mentally retarded, hard of hearing, deaf, speech or language impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, or other health impaired children or children with specific learning disabilities who by reason thereof require special education and related services.

Early intervention services: Those services defined in section 672(2) of the Individuals with Disabilities Education Act that are provided to infants and toddlers with disabilities;

High-risk children: Individuals under the age of 21 who are low-income or at risk of abuse or neglect, have been abused or neglected, have

serious emotional, mental, or behavioral disturbances, reside in placements outside their homes, or are involved in the juvenile justice system;



Infants and toddlers with disabilities: Infants and toddlers from birth to age 2, inclusive, who need early intervention services for specified reasons, as defined in section 672(1) of the Individuals with Disabilities Education Act;

Section 672(1) of the Act defines infants and toddlers with disabilities as those who—

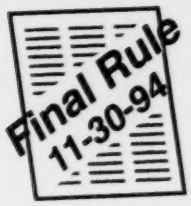
- are experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures in one or more of the following areas: cognitive development, physical development, language and speech development, psychosocial development, or self-help skills or

- have a diagnosed physical or mental condition which has a high probability of resulting in developmental delay.

The term *infants and toddlers with disabilities* may also include, at a state's discretion, individuals from birth to age 2, inclusive, who are at risk of having substantial developmental delays if early intervention services are not provided;

Low-income communities: Communities in which there is a high concentration of children eligible to be counted under Title I of the Elementary and Secondary Education Act of 1965, as amended;

Medical Technician: An allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system;



The American Medical Association defines an allied health professional as one engaged in the following types of service:

Anesthesiology Assistant	Medical Laboratory Technology
Athletic Training	Nuclear Medicine Technology
Blood Bank Technology	Occupational Therapy
Cardiovascular Technologist	Ophthalmic Medical Technology
Cytotechnology	Perfusion
Diagnostic Medical Sonography	Physical Assistant Practice
Electroneurodiagnostic Technology	Radiologic Technology
Emergency Medical Services	Respiratory Therapy
Medical Assisting	Surgical Technology
Medical Illustration	

Nurse: A licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services;

Qualified professional provider of early intervention services: A provider of services, as defined in section 672(2) of the Individuals with Disabilities Education Act;

Section 672(2) of that Act defines developmental services as those services that—

- are provided under public supervision;
- are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
- are designed to meet a handicapped infants's or toddler's developmental needs in any one or more of the following areas:
  - — physical development;
  - — cognitive development;
  - — language and speech development;
  - — psychosocial development; or
  - — self-help skills;
- meet the standards of the state, including the requirements of this part;

- include:

  — family training, counseling, and home visits;

  — special instruction;

  — speech pathology and audiology;

  — occupational therapy;

  — physical therapy;

  — psychological services;

  — case management services;

  — medical services only for diagnostic or evaluation purposes;

  — early identification, screening, and assessment services; and

  — health services necessary to enable the infant or toddler to benefit from the other early intervention services;

- are provided by qualified personnel, including—

  — special educators;

  — speech and language pathologists and audiologists;

  — occupational therapists;

  — physical therapists;

  — psychologists;

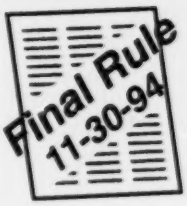
  — social workers;

  — nurses; and

  — nutritionists; and

- are provided in conformity with an individualized family service plan adopted in accordance with Section 677 of the Individuals with Disabilities Education Act.

Teaching in a field of expertise: The majority of classes taught are in the borrower's field of expertise.



SECTION SIX: DUE DILIGENCE—BILLING & ADDRESS SEARCHES

Due diligence refers to those steps schools must take to collect Federal Perkins Loans and NDSLs—including billing the borrower, sending overdue notices when necessary, and conducting address searches if the borrower cannot be located. If billing procedures fail to get the borrower into repayment, schools must proceed to the second—and more intensive—stage of collection, which may include hiring a collection firm. Finally, in many cases, schools may have to litigate.

Due diligence comprises all these procedures, but it can also be as basic as keeping the borrower informed of all changes in the Federal Perkins Loan Program that affect his or her rights and responsibilities and responding promptly to the borrower's inquiries.

Keep borrower information current

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar's offices, and others, as necessary—must provide the information they have available about the borrower to those offices responsible for billing and collecting loans to assist them in determining the following information about the borrower:

- enrollment status;
- expected graduation or termination date;
- the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- current name, address, telephone number, Social Security number, and driver's license number (if any).

EXIT INTERVIEW

Contact with the borrower becomes even more important just before he or she leaves school, when the school must hold an exit interview, explaining the borrower's responsibility for repaying the loan and stating when the

first payment will be due and whether payments are to be made monthly, bimonthly, or quarterly. If individual interviews are not possible, group interviews are acceptable. The school must document holding an exit interview.

School must provide certain information

During the interview, borrowers must be told the terms of the loan, the amount of the outstanding balance, and their obligation to repay according to the repayment schedule. The school must also make them aware of the consequences of default, including the possibility that their account may be referred to a collection firm, that the default will be reported to a national credit bureau, and that legal action may be taken to collect the amount owed.

Borrower rights and responsibilities

Borrowers must also be told their rights and responsibilities under the loan(s), including—

- their responsibility to inform the school immediately of any change in name, address, telephone number, or Social Security number;
- their rights to forbearance, deferment, cancellation, or postponement of repayment, and the procedures for filing for those benefits (see Sections Four and Five of this Chapter for more information); and
- their responsibility to contact the school before the due date of any payment they cannot make.

Additional information school must provide to borrower

The school must provide the following additional information during the exit interview and must include it either in the borrower's promissory note or in some other written statement the school gives the borrower; if the borrower leaves school without the knowledge of the school, the school must attempt to provide the required information to the borrower in writing:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent where communications should be sent;
- the name and address of the party where payments should be sent;
- the estimated amount the borrower owes on the date the repayment period is scheduled to begin, as well as the amount of the total debt (principal and interest);
- the interest rate, as well as the projected total interest charges the borrower will pay;

- a discussion of the repayment schedule—including the date the first installment is due, and the number, amount, and frequency of required payments;
- any special options for loan consolidation or other refinancing;
- a statement that the borrower may prepay all or part of the loan without penalty;
- a discussion of any fees that will be charged the borrower for not making payments on time;
- a description of any charges associated with default, such as liability for loan collection costs reasonably incurred by the school or ED; and
- information about the borrower's rights to forbearance, deferment, cancellation or postponement of repayment and the procedures for filing for those benefits.

A school is no longer required to give borrowers information about the average indebtedness of students with Federal Perkins Loans at that school.

Collecting information during the exit interview

The school must require the borrower to provide the following information during the exit interview:

- the borrower's expected permanent address after leaving school (regardless of the reason for leaving);
- the name and address of the borrower's expected employer after leaving school;
- the address of the borrower's next of kin; and
- any corrections in the school's records relating to the borrower's name, address, social security number, personal references, and driver's license number.

Borrower must sign repayment schedule

At the time of the exit interview, the borrower must sign the repayment schedule, and the school must give the borrower a copy of the signed schedule and of the signed promissory note. As previously noted, the school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid or until the originals are needed in order to enforce collection of the loan. If the originals are released to enforce repayment, the school must keep certified true copies of the documents released.

Mailing exit interview materials

If the school discovers that a borrower has left without having had an exit interview, the school must either contact the borrower and personally give him or her the information listed above, or mail it. The school must also provide the borrower a copy of the signed promissory note and two copies of the repayment schedule, one of which the borrower must sign and return to the school.

CONTACT DURING INITIAL AND POST-DEFERMENT GRACE PERIODS

Three contacts in 9-month grace period

Two contacts in 6-month grace period

The school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin. For loans with a 9-month initial grace period, the school must contact the borrower three times. For loans with a 6-month initial grace period, the school must contact the borrower twice. Most loans also have a *post-deferment* grace period of 6 months. The school must also contact the borrower twice during the post-deferment grace period. The chart below shows the length of initial and post-deferment grace periods for NDSLs made on or after October 1, 1980 and for Federal Perkins Loans.

GRACE PERIODS
(Borrowers Attending at Least Half Time)

Type of Grace Period	Federal Perkins Loans	Direct Loans made on or after 10/1/80	Direct Loans made before 10/1/80
Initial	9 months	6 months	9 months
Post-Deferment	6 months	6 months	None

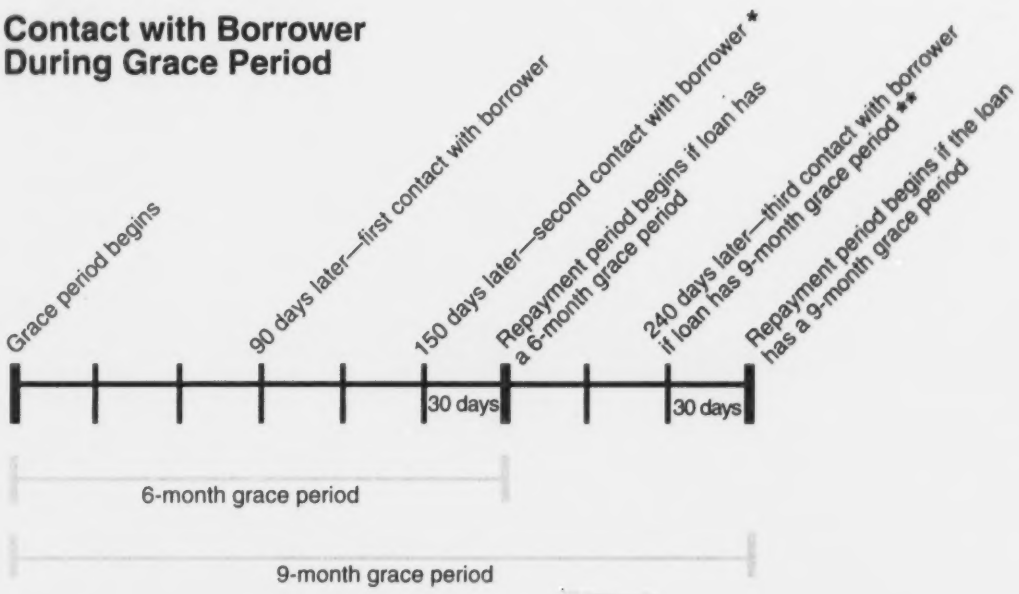
The *first contact* must be *90 days* after any grace period (initial or post-deferment) begins. The school must remind the borrower of the responsibility to repay the loan and must send the borrower information about the total amount to be repaid (or remaining to be paid, if a payment has been made in the past). This information must include the amount of principal and interest over the remaining life of the loan, and the date and amount of the first payment (or next payment, if a payment has been made previously).

The *second contact* must be 150 *days* after any grace period begins, and the school must again remind the borrower of the date and amount of the first (or next) payment. The second contact is timed to coincide with the first billing notice for a loan with a 6-month grace period (30 days before the first payment is due). These two notices may be combined.

For borrowers with a *9-month* initial grace period, the school must make a *third contact 240 days* after the grace period begins to again remind the borrower of the date and amount of the first payment. As in the case of a

6-month grace period, this notice is timed to coincide with the first billing notice. Again, the school may combine the two notices (refer to the chart below).

Contact with Borrower During Grace Period


Grace period begins
90 days later—first contact with borrower
150 days later—second contact with borrower *
Repayment period begins if loan has a 6-month grace period
240 days later—third contact with borrower **
Repayment period begins if the loan has a 9-month grace period
30 days
30 days
6-month grace period
9-month grace period

* 30-day billing notice must be sent to borrower at the same time if loan has 6-month grace period.

** 30-day billing notice must be sent to borrower at the same time if loan has 9-month grace period.

BILLING PROCEDURES

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

Coupon system, written notice, or automatic funds transfer system

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due. If the school does not use a coupon system, it must send the borrower, at least *30 days* before the first payment is due, a written notice giving the name and address of the party where payments should be sent and a statement of account; for subsequent payments, the school must send the borrower a statement of account at least *15 days* before the due date of the payment.* (The

* If the borrower elects to make payments by means of an electronic transfer of funds from the borrower's bank account, the school is not required to send the borrower a statement of account at least 15 days before the due date of each subsequent payment. However, the school must send the borrower an annual statement of account.

statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment.)

First overdue notice

If a payment is overdue and the school has not received a request for forbearance, deferment, postponement, or cancellation, the school must send the borrower an *overdue notice* within *15 days* after the due date.

Late charge required

For loans made for periods of enrollment beginning on or after January 1, 1986, schools are required, beginning July 1, 1987, to impose a charge when the borrower's payment becomes overdue.* The charge (called a *late* charge) is based either on the actual costs the school incurs in taking steps to obtain the overdue amount, or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20 percent of the installment payment most recently due.

The school must also impose a late charge if the borrower's payment is overdue and the borrower has not filed a request for forbearance, deferment, cancellation, or postponement on time.* The request must contain enough information for the school to determine whether the borrower is entitled to the relief requested.

School may waive late charges if past-due payments are paid in full

Late charges on loans made for periods of enrollment that began on or after January 1, 1986, may be assessed only during the billing process; they may not be imposed once the school begins collection procedures. The school may waive late charges against a borrower who repays the full amount of past-due payments.

Optional penalty charge before 1/1/86

Schools are authorized but not required to assess a penalty charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is $1 for the first month and $2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is $3; the maximum penalty for loans payable quarterly is $6. Penalty charges on these loans may be assessed only during the billing process.

The school may either add the penalty or late charge to the principal amount of the loan as of the first day the payment was due, or may include the charge with the next scheduled payment after the borrower receives notice that the charge must be paid in full by the next payment due date. Schools may wish to include this notice as part of the first overdue notice.

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* The mandatory late charges do not apply retroactively to loans made before July 1, 1987, but would apply to any NDSL borrowers who have re-signed revised promissory notes.

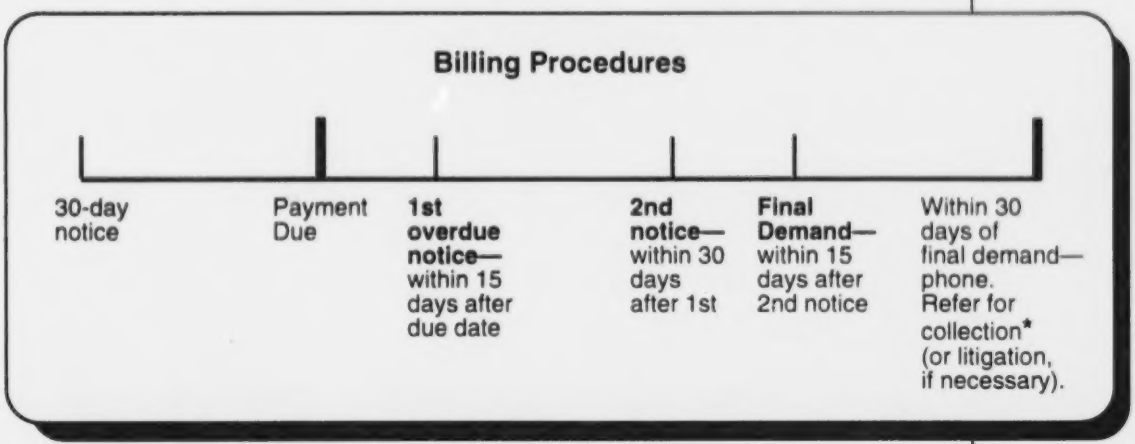
Second notice

If the borrower does not satisfactorily respond to the first overdue notice, the school must continue to contact him or her. A *second overdue notice* must be sent within *30 days* after the first. If there is still no response, a final *demand letter* must be sent within *15 days* after the second notice. The letter may be (but does not have to be) sent by certified mail. The final demand letter must inform the borrower that, unless the school receives a payment or a request for forbearance, deferment, postponement, or cancellation *within 30 days* of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau, as required by law.

Final demand

In some cases, may send just a final demand

The school may skip the first two letters and send just the final demand letter within *15 days* after the payment is overdue if the borrower's repayment history has been unsatisfactory, or if the school can reasonably conclude the borrower does not intend to repay or to seek forbearance, deferment, postponement, or cancellation. Unsatisfactory repayment history means a borrower has previously failed to make payments when due, to request deferment, postponement, or cancellation on time, or has previously received a final demand letter.


Billing Procedures
30-day notice
Payment Due
1st overdue notice— within 15 days after due date
2nd notice— within 30 days after 1st
Final Demand— within 15 days after 2nd notice
Within 30 days of final demand— phone. Refer for collection* (or litigation, if necessary).

Telephone contact

If the borrower does not respond to the final demand letter within 30 days, the school must try to make contact by telephone before beginning collection procedures. As telephoning is often very effective in getting the borrower to begin repayment, the school may be able to avoid the more costly procedures of collection.

If the school calls a number and there is no answer, at least one other attempt to reach the borrower on a different day and at a different time should be made. If the borrower has an unlisted telephone number, the

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* The school can utilize the services for ED's Default Reduction Assistance Project (DRAP) before the loan goes to a collection firm; DRAP is discussed in Section Eight, "Default."

school must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If the school is still unsuccessful, it should document that fact in its files.

If the borrower does not respond satisfactorily to the final demand letter, the school must try and recover the amount owed from the borrower—and for loans made prior to July 23, 1992, also from any endorser of the loan. Often, schools send the endorser a copy of the final demand letter sent to the borrower, as well as copies of all future communications about the borrower's debt, including dunning letters, in an effort to recover the loan from one party or the other. For loans made on or after July 23, 1992, the school is not required to try to recover the amount owed from an endorser other than the borrower.

Acceleration

The school may choose to accelerate a loan if the borrower misses a payment or does not file for deferment or cancellation on time. Acceleration means making payable immediately the entire outstanding balance, including interest and any applicable late charges or collection fees. Because this marks a serious stage of default (afterwards, deferment and cancellation rights lapse, and enforcement action begins), the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower at least 30 days advance written notice. The notice may be included in the final demand letter, or in some other written notice to the borrower. If the loan is accelerated, the school must subsequently send the borrower a second notice, informing him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if a school plans to assign the loan to ED for collection, the school must first accelerate the loan.

ADDRESS SEARCHES

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- review the records of all appropriate institutional offices and
- review telephone directories or check with information operators in the area of the borrower's last known address.

IRS/ED Skip-tracing

If these methods are unsuccessful, the school must either use its own personnel to try to locate the borrower (employing and documenting efforts comparable to commercial skip-tracing services), or must use a commercial skip-trace firm. The school may elect to use the Internal Revenue Service skip-tracing service.

If the school still cannot locate the borrower after taking these steps, it must continue to make reasonable attempts at least twice a year until—

- the loan is recovered through litigation;
- the account is assigned to the U.S. Department of Education; or
- the account is written off (see page 6-78).

To help locate borrowers whose collection notices are returned undelivered, schools may participate in the IRS/ED Skip-tracing Service. The Higher Education Amendments of 1992 have eliminated the *requirement* that schools use the IRS/ED skip-tracing service in carrying out the provisions of due diligence. However, ED strongly encourages schools to continue to use this service. ED will continue to send a "Dear Colleague" letter to schools that participate in the Federal Perkins Loan Program giving instructions for completing the report (refer to "Dear Colleague" letter CB-93-14(LD), August 1993). This is a valuable collection tool to use for tracing defaulted borrowers, and ED will continue to make it available to schools.

In order to maintain eligibility to participate in the IRS/ED Skip-tracing Service, each participating school must submit the annual Safeguard Activity Report, in accordance with the IRS publication 1075. The Reports are needed to help ensure that procedures are established and utilized to safeguard the names and addresses of defaulted borrowers under the Federal Perkins Loan Program. General questions should be directed to ED's Program Systems Service, Campus-Based Programs Systems Division. The telephone number is (202) 708-6726.

SECTION SEVEN: DUE DILIGENCE—LOAN COLLECTION

COLLECTION PROCEDURES

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default.

Report default to credit bureau

The *first* step a school must take in the collections process is to report a defaulted loan account to a national credit bureau organization (one with which ED has an agreement). (However, the debtor has the right to appeal the accuracy and validity of the information reported to the credit bureau.)

Report changes in loan status to credit bureau

The school must report any changes in the status of the borrower's loan account to the same national credit bureau to which the school originally reported the default. The school must use the reporting procedures required by that credit bureau. The school must also respond within one month to any inquiry received from that or any other credit bureau about the information reported on the loan amount.

School or firm collects

The *second* step the school must take in the collections process is to use its own personnel to collect or hire a collection firm to collect the account.

If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the school has two options—the school must either litigate or make a second effort to collect.

Procedures for second effort to collect

A second effort to collect requires either of the following procedures:

- If the school first attempted to collect by using its own personnel, it must refer the account to a collection firm unless state law prohibits it.
- If the school first used a collection firm, it must attempt to collect by using its own personnel, use a different collection firm, or submit the account to ED for assignment.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

Procedures if school is unable to collect

If the school is unsuccessful in its effort to place the loan in repayment after following the procedures above, the school must continue to make annual attempts to collect from the borrower until—

- the loan is recovered through litigation;
- the account is assigned to ED; or
- the loan is written off.

Write-offs of defaulted loans

A school may write off a defaulted loan with a balance of *less than $25.00*, including outstanding principal, accrued interest, collection costs and late charges. If the school writes off the defaulted account, it may no longer include the amount of the account as an asset of the Federal Perkins Loan Fund. If a school receives a payment from a borrower after the loan has been written off, it must deposit that payment into the Fund.

Assessing collection costs against borrower

The school must determine the amount of collection costs to be charged to the borrower for address searches, collection, litigation, use of contractors for collection of the loan, and/or bankruptcy proceedings. The collection costs must be based on either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency. The school must assess all reasonable collection costs against the borrower, without regard to any provisions of state law that would conflict with the above provisions.

Limit on collection charges on older notes

For loans made from 1981 through 1986, many borrowers have received loans under promissory notes that contain a limitation on the amount of costs that can be recovered from the borrower (25 percent of the outstanding principal and interest due on the loan). As this provision is no longer applicable, effective beginning with the 1987-88 award year, if these borrowers ask for new advances, ED strongly encourages schools to issue new promissory notes (which would delete this provision) and require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for *all* collection costs on all Federal Perkins, Direct, or Defense loans.

School determines reasonable collection costs

The school determines what collection costs are "reasonable," as long as they are based either on actual costs the school incurs for the particular borrower, or on average costs incurred in collecting loans in similar stages of default. The school should explain to the borrower how it calculates

collection costs, based on the cost analysis used to support charges of these costs to the Federal Perkins Loan Fund. The school must be able to document the basis for the costs assessed.

ACTIONS A SCHOOL MAY TAKE TO AVOID LITIGATION

May waive collection costs if loan is paid in full

Before filing suit on a loan, a school may waive all collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not a precondition. The amount waived may be charged to the Federal Perkins Loan Fund.

May waive a *portion* of collection costs

Another alternative is for the school to waive a *portion* of the collection costs on a loan if doing so will give the school greater flexibility in negotiating repayment. The school may waive a percentage of the collection costs, applicable to the amount then due on the loan, equal to the percentage of the past-due balance the borrower repays within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of the collection costs incurred through the date of that payment. The amount waived may be charged to the Federal Perkins Loan Fund.

May write off a balance under $25

As stated earlier, a school may write off a defaulted loan with a balance of *less than $25.00*, including outstanding principal, accrued interest, collection costs and late charges (but may no longer include the amount of the account written off as an asset of the Federal Perkins Loan Fund).

Compromise if 90% is paid

As provided in Section 674.33(e) of the November 30, 1994 Final Rule, a school may compromise on the repayment of a defaulted loan if the school has fully complied with all due diligence requirements, and the student borrower pays in a single lump-sum payment—

- at least 90% of the outstanding principal balance on the loan;
- all interest due; and
- any collection fees due.

The Federal share of the compromise repayment must bear the same relation to the school's share of the compromise repayment as the Federal capital contribution to the school's loan Fund under this part bears to the school's capital contribution to the Fund.

Possible Consolidation Loan

The Federal Family Education Loan (FFEL) regulations allow a borrower to receive a Consolidation Loan that could include a defaulted Federal Perkins Loan on which the borrower has made satisfactory repayment

arrangements if the defaulted loan will reenter repayment through consolidation. (Consolidation Loans are discussed in Chapter 10). The amount eligible for consolidation is the sum of the unpaid principal, accrued unpaid interest, and late charges including outstanding collection costs. A defaulted loan that is being repaid under a *court order* would remain in default status until paid and is not eligible for consolidation.

LITIGATION

Must sue under certain conditions

If the collection procedures described above do not result in the repayment of a loan, the school must determine at least once a year whether all the conditions listed below are met. If so, the school must litigate. The conditions are—

- the total amount owed (including outstanding principal, interest, collection costs, and late charges) on all the borrower's Federal Perkins Loans and NDSLs at the school is more than $200;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt, or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining "reasonable" is left to the school);
- the borrower does not have a defense that will bar judgment for the school (if the school determines that the borrower has a partial defense, it must weigh the costs of litigation against the costs of recovery, based on the amount of the enforceable portion of the debt); and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

May sue at any time

Even if all the above conditions are *not* met, the school may sue if it chooses. Section 484A(a) of the Higher Education Amendments of 1992 (P.L. 102-325) permanently eliminated any federal or state statute of limitations that would have applied formerly to enforcement actions to collect Federal Perkins Loans or NDSLs.

Recovery of costs

The school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. The school is also required to try and recover all costs previously incurred in the collection of overdue payments,

if these collection costs have not been paid by the borrower; a percentage of these unrecovered costs may be charged to the Fund (see below).

Assignment of amount of $25 or more

If the school cannot collect a payment after following all collection procedures (including litigation, if required), it may, with the Secretary's approval, assign the account to ED for collection. A school may assign a loan to ED for collection if the amount outstanding is *$25 or more*, including principal, interest, collection costs, and late charges.

If the school has a cohort default rate of more than 20 percent as of June 30 two years before the school submits an assignment request, the school must provide documentation to ED that it has complied with all of the due diligence requirements discussed in this chapter.

DEPOSIT OF FUNDS COLLECTED

Deposit into interest-bearing bank account

A school must deposit any funds collected into an interest-bearing bank account. A collection agency, collection attorney, or loan servicer is required to deposit funds collected into an interest-bearing account only if the agency, attorney or servicer holds such amounts for more than 45 days. The account must be insured by an agency of the federal government, secured by collateral of reasonably equivalent value, or invested in low-risk income-producing securities, such as obligations issued or guaranteed by the United States.

The school may deduct from the interest earned any bank charges incurred as a result of maintaining the Fund assets in an interest-bearing account, such as service charges, and deposit only the net earnings into the Fund.

COSTS CHARGEABLE TO THE FEDERAL PERKINS LOAN FUND

Routine billing costs are not chargeable

The costs of actions a school takes in regard to past-due payments on a loan must be *charged to the borrower* as follows: billing costs associated with past-due payments *(not* routine billing costs) and costs of address searches, collection, litigation, the use of contractors, and bankruptcy litigation.

Billing costs for past-due payments sometimes chargeable

The only *billing costs* a school may charge the Fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower; if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the Fund for only the unpaid portion of the actual cost of the calls.

List of collection costs chargeable to the Fund

Only the collection costs discussed below that are *waived or not paid by the borrower* may be charged to the Federal Perkins Loan Fund:

- *Collection costs waived*

  As stated earlier, a school may waive all collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding or may waive a percentage of the collection costs equal to the percentage the borrower pays on the amount outstanding on the loan within 30 days of entering into a new repayment agreement. The amount waived may be charged to the Fund.

- *Cost of a successful address search*

  A reasonable amount for the cost of a successful address search, if not paid by the borrower, may be charged to the Fund—provided the school either used a commercial skip-trace service or its own personnel, employing methods comparable to commercial skip-tracing practices. Defining a "reasonable" amount is left to the school.

- *Cost of reporting defaulted loans to credit bureaus*

  The following costs not paid by the borrower may be charged to the Fund: the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

- *Collection costs*

  Collection costs not paid by the borrower may be charged to the Fund if they do not exceed—for *first collection efforts—30 percent* of the total principal, interest, and late charges *collected* and—for *second collection efforts—40 percent* of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged the Fund but subsequently paid by the borrower.

- *Collection costs resulting from litigation, including attorney's fees*

  Collection costs resulting from litigation, including attorney's fees, may be charged to the Fund if not paid by the borrower, but must not exceed the sum of—

  — court costs specified in 28 U.S.C. 1920;

  — other costs incurred in bankruptcy proceedings in taking actions required or authorized under Section 674.49 of the regulations;

  — costs of other actions in bankruptcy proceedings to the extent that those costs, together with other costs incurred in bankruptcy proceedings, do not exceed *40 percent* of the total amount of judgment obtained on the loan; and

  — *40 percent* of the total amount recovered from the borrower in any other proceeding.

- *Costs of firm performing both collection and litigation services*

  If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of *40 percent* of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Documenting charges to Fund

For audit purposes, a school must support costs charged to the Fund with appropriate documentation, including telephone bills and receipts from collection firms. Due diligence activities involving *fixed costs* (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities are typically performed on a *contingent-fee* basis—address search, collection, and litigation (other than bankruptcy); the school may charge the costs of these activities to the Fund under the conditions stated previously and only if they are successful, as the school incurs no costs if they are not.

Write-off of account of less than $25

Write-offs not included as a Fund asset

As stated earlier, a school may write off a student's defaulted loan if the total amount owed on the account is less than $25. "Total amount owed" means outstanding principal, accrued interest, collection costs, and late charges. Another alternative would be for the school to elect to use its own funds to satisfy the debt. If the school writes off an account, it no longer includes it as an asset of the Fund. If the school receives a repayment from the borrower after the loan has been written off, the school must deposit it into the Fund.

USING BILLING AND COLLECTION FIRMS

School ultimately responsible

The school may use a contractor for billing or collection, but the school is still responsible for complying with the Subpart C regulations about those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling, postponing, or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

Billing service and collection firm must be separate

A school using a billing service may not use a collection firm that owns or controls the billing service, or is owned or controlled by the billing service. In addition, a school may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Quarterly activities statement

A school using either a billing service or a collection firm must ensure that the service or firm issues, at least quarterly, a statement showing the activities for each borrower, such as amounts collected or changes in the borrower's name, address, telephone number, or Social Security number, if known. The service or firm must also give the school, at least quarterly, a list of charges for skip-tracing activities and telephone calls.

Handling of repayments by billing service or collection firm

The school must also ensure that the billing service or collection firm instructs the borrower either to mail repayment checks to the school directly or to a bank where a lock-box is maintained for the school. Alternatively, the service or firm may deposit the funds into an interest-bearing institutional trust account.

If a billing service or a collection firm is depositing funds received directly from the borrower into an institutional trust account, this institutional trust account must be an interest-bearing account if those funds will be held for longer than 45 days. A billing service is not permitted to deduct its fees before depositing the amount it receives from borrowers. A collection firm may deduct its fees before depositing the funds it receives from borrowers if the school authorizes it to do so.

The firm may commingle in its accounts the funds collected as long as it can identify the interest earnings and the amount collected by the institution. If a *collection* firm chooses this last procedure, it may, *if the school authorizes it,* deduct its fees before depositing the amount collected. A *billing* service may *not* deduct its fees from the amount it receives from borrowers.

Fidelity bond or comparable insurance

Just as schools are required to keep adequate fidelity bond coverage to protect the government's interest in the SFA funds they receive, it is appropriate to ensure the same sort of protection from third parties who handle Federal Perkins Loan Program funds for the school. Accordingly, a school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service. Billing services (and *collection firms not authorized to deduct their fees* from borrowers' payments) must be bonded or insured in an amount not less than the amount of funds the school expects to be repaid in a two-month period on the accounts it refers.

Larger bond for collection firm that deducts fees

Collection firms authorized to deduct their fees from borrowers' payments must be bonded or insured as follows:

1. If the amount the school expects to be repaid in a two-month period is *less than $100,000*, the collection firm must be bonded or insured in one of the following amounts, whichever is *less:*

   - ten times the amount the school expects to be repaid on accounts it refers to the firm during a two-month period *or*
   - the amount the firm expects to collect in a two-month period on *all* accounts it has in its portfolio (not just the school's).

2. If the amount the school expects to be repaid in a two-month period is *$100,000 or more*, the collection firm must be bonded or insured in an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period. *The bond or insurance must name the school as beneficiary.* (This is not a requirement when the repayments expected in a two-month period are less than $100,000.)

The school must review annually the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

Law firm as collection firm

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

SECTION EIGHT: DEFAULT

Definition of default

"Default" in the Federal Perkins Loan Program is defined as "the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement." Technically speaking, a loan made under the Federal Perkins Loan Program is in default on the first day after a payment is past due. However, schools are required to comply with the due diligence regulations in regard to notifying the borrower about payments due or overdue, billing procedures, and collection procedures before resorting to litigation. Due diligence procedures are discussed in Sections Six and Seven of this chapter.

Report to credit bureau

Schools must report a defaulted loan account to a national credit bureau organization with which ED has an agreement; this requirement is included in the Higher Education Amendments of 1992 and in Section 674.45 of the November 30, 1994 Final Rule. A school must also report any change in account status to the same national credit bureau to which it originally reported the default, according to the reporting procedures of the credit bureau. If the school receives an inquiry from any credit bureau about the information reported on the loan amount, the school must respond within one month of its receipt to the inquiry information. If the loan is rehabilitated by the borrower (see the next page), the school must report the rehabilitation within 30 days of the rehabilitation, to the same national credit bureau to which it originally reported this defaulted loan.

The debtor has the right to appeal the accuracy and validity of information reported to the credit bureau. For more information about reporting Federal Perkins Loans or NDSLs to a national credit bureau, see Section Ten, "Credit Bureau Reporting."

Satisfactory arrangements to repay

A borrower who has made "satisfactory arrangements to repay" a defaulted loan re-establishes his or her eligibility to apply for federal student aid. However, the loan is still considered to be in default and will continue to be reported as defaulted to a national credit bureau organization with which ED has an agreement. "Satisfactory arrangements to repay" is defined in the November 30 Final Rule as the "establishment of a new written repayment agreement and the making of one payment each month for six consecutive months." If a borrower has made satisfactory arrangements to repay a defaulted loan, the loan is not included in calculating the school's cohort default rate.

Rehabilitation of defaulted loan

Section 674.5 (e) of the November 30, 1994 Final Rule provides that a defaulted loan is considered to be "rehabilitated" after the borrower has signed a new repayment agreement and has made one payment each month for 12 consecutive months. Within 30 days of the rehabilitation, the school must report the rehabilitation to the same national credit bureau to which it originally reported this defaulted loan. A rehabilitated loan is not included in determining a school's cohort default rate.

ED's Default Reduction Assistance Project (DRAP)

To assist schools in bringing defaulted borrowers into repayment, ED has established the Default Reduction Assistance Project (DRAP), which is discussed in "Dear Colleague" letter CB-94-7, dated June 1994. Under DRAP, a school can request that ED send a borrower any of three letters designed to warn the student of the seriousness of default. ED provides these services at no cost to the school. Participation in DRAP is voluntary. General questions about DRAP should be directed to the Campus-Based Programs Systems Division. The telephone number is (202) 708-6726. As DRAP is intended to get the borrower back into repayment *before* the account goes to a collection firm, this service should *not* be requested once a collection agency is involved. This service is usually provided during the 30-day period during which a school is awaiting response to the "final demand" letter. Although schools are no longer required to use the IRS/ED Skip-tracing Service for carrying out the due diligence provisions of the Federal Perkins Loan Program, ED strongly encourages schools to continue to use this service. The IRS/ED Skip-tracing Service is one of the most powerful tools available to schools for locating defaulted borrowers.

Skip Tracing

COMPROMISE OF REPAYMENT OF DEFAULTED LOAN

To encourage repayment of defaulted loans, the November 30, 1994 Final Rule provides that a school may compromise on the repayment of a defaulted loan if the school has fully complied with all due diligence requirements discussed in Section Six of this chapter, and if the student borrower pays in a single lump-sum payment—

- 90 percent of the outstanding principal balance on the loan;
- the interest due on the loan; and
- any collection fees due on the loan.

The federal share of the compromise repayment must bear the same relation to the school's share of the compromise repayment as the federal capital contribution (FCC) bears to the institution's capital contribution (ICC).

PENALTY FOR SCHOOLS WITH HIGH COHORT DEFAULT RATES

For award year 1994-95 and subsequent years, if a school's cohort default rate meets the levels below, a default penalty is imposed on the school, as described below:

- If a school's cohort default rate equals or exceeds 15 percent, it must establish a default reduction plan, as required by Section 674.5 of the November 30, 1994 Final Rule (refer to page 6-92);
- If the school's cohort default rate is greater than 15 percent, it may not participate in the ELO;
- If the school's cohort default rate equals or exceeds 20 percent, but is less than 25 percent, the school's FCC will be reduced by 10 percent;

Rate of 20% or more causes reduction in FCC

- If the school's cohort default rate equals or exceeds 25 percent, but is less than 30 percent, the school's allocation or FCC will be reduced by 30 percent;
- If the school's cohort default rate equals or exceeds 30 percent, the school's allocation or FCC will be reduced to zero.

CALCULATING A SCHOOL'S COHORT DEFAULT RATE

A school's cohort default rate is calculated for a particular year based on the information the school provides on the annual Fiscal Operations Report.

Definition of "cohort default rate"

The term "cohort default rate" means (for any award year in which 30 or more current and former students at the school enter repayment on a loan received for attendance at that school) the percentage of those current and former students who enter repayment in that award year on the loans received for attendance at that school and who default before the end of the following award year.

For any award year in which *less* than 30 current and former students at the school enter repayment on a loan received at the school, "cohort default rate" means the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the *three* most recent award years and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

Each school's 1995-96 FISAP lists the cohort default rate that affects the school for the 1995-96 award year. We will refer to that rate as the school's

Look at date a loan enters repayment

current cohort default rate. This rate (for schools with at least 30 borrowers entering repayment each year) was calculated by computing the number of borrowers who entered repayment between July 1, 1992 and June 30, 1993. For purposes of the cohort default rate, "entering repayment" began the day after the end of the initial grace period or the day that the borrower waived his or her initial grace period.

Denominator of formula

The denominator in the calculation is the number of borrowers entering repayment during the specified award year (1992-93 for the 1995-96 FISAP). Borrowers enter repayment only once during the life of the loan. In calculating the default rate, each loan is attributed only to the school that made the loan.

Numerator of formula

The numerator in the calculation is the number of people in the denominator who were in default as of the end of the following award year. In calculating a school's current cohort default rate, the numerator is the number of people in the denominator who were in default at the end of the 1993-94 award year (June 30, 1994). For purposes of that calculation, as of June 30, 1994, a borrower must have been in default for at least 240 consecutive days for monthly payments, or 270 consecutive days for other installments. Even if the school had paid off the loan, the borrower still had to be included in this calculation. However, borrowers who had made satisfactory arrangements to repay the loan could be excluded from the numerator.

DEFAULTED LOANS TO BE INCLUDED IN A SCHOOL'S COHORT DEFAULT RATE

The criteria listed below determine which defaulted loans must be included in the formula to determine a school's cohort default rate:

- A borrower must be included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly, or 270 consecutive days for a loan repayable quarterly.
- A loan is considered to still be in default if a payment is made by the school, its owner, agency, contractor, employee, or any other entity or individual affiliated with the school in order to avoid default by the borrower.
- A loan that is in default, but on which the borrower has made satisfactory arrangements to repay, or any loan that has been rehabilitated before the end of the following award year is *not* considered to be in default for the purpose of determining a school's cohort default rate.

- In the case of a student who has attended and borrowed at more than one school, the student and his or her subsequent repayment or default are attributed to the school where the student received the loan that entered repayment in the award year.

- A defaulted loan that has been assigned to ED is counted in determining a school's cohort default rate if the loan entered repayment during the appropriate time period. Assignments of loans to ED no longer lower a school's default rate. In addition, the status of a loan that has been assigned to ED is still considered in default until the loan is paid in full, even if the borrower has made satisfactory arrangements to repay the defaulted loan in order to qualify for additional aid from SFA programs.

Assignments do not lower cohort default rate

- Loans that default as a result of improper servicing or collection are not considered in calculating the cohort default rate. Improper servicing or collection is defined as the school's (or its servicing agent's) failure to comply with the due diligence regulations.

COHORT DEFAULT RATE FOR A SCHOOL WITH MORE THAN ONE LOCATION

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/ locations of the school from the date ED notifies the school of the rate until ED notifies the school that the rate no longer applies.

If a school changes status from a branch of one school to a free-standing or independent school, ED determines the cohort default rate based on the school's status as of July 1 of the award year for which the rate is being calculated.

Rate is based on school's status on July 1

If an independent school becomes a branch of another school or merges with another independent school, ED determines the cohort default rate based on the combined number of students from both schools who enter repayment during the applicable award year and the combined number of students from both schools who default during the applicable award years. The new rate applies to the new consolidated school and all of its current locations.

Cohort default rate of schools that merge

If a school changes status from a branch of one school to a branch of another school, ED determines the cohort default rate based on the combined number of students from both schools who enter repayment

Rate if branch moves to another school

during the applicable award year and the combined number of students from both schools who default during the applicable award years from both schools in their entirety.

Rate if ownership changes

If a school has a change in ownership that results in a change in control, ED determines the cohort default rate based on the combined number of students who enter repayment during the applicable award year and the combined number of students who default during the applicable award years at the school under both the old and new control.

DEFAULT REDUCTION PLAN

Plan is required if default rate is 15% or more

Section 674.6 of the November 30, 1994 Final Rule requires any school with a cohort default rate that equals or exceeds 15 percent to establish and implement a plan designed to reduce defaults by its students in the future. The school must submit to ED by December 31 of the calendar year in which the cohort default rate was calculated—

- a written description of the default reduction plan;
- a statement indicating that the school agrees to comply with the required measures listed in the following paragraph; or
- if the school already has a default reduction plan under the FFEL Program, a statement that the school agrees to apply that plan to the Federal Perkins Loan Program.

Measures required in a default reduction plan

A school's default reduction plan must include the measures listed below and a description of the measures the school will take to reduce defaults. The school must explain how it plans to implement the following measures:

1. Revise admission policies and screening practices, consistent with applicable state law, to ensure that students enrolled in the institution, especially those who are not high school graduates or those who are in need of substantial remedial work, have a reasonable expectation of succeeding in their programs of study;
2. Improve the availability and effectiveness of academic counseling and other support services to decrease withdrawal rates, including—
   - providing academic counseling and other support services to students on a regular basis, at a time and location that is convenient for the students involved;
   - publicizing the availability of the academic counseling and other support services;

- establishing procedures to identify academically high-risk students and schedule those students for immediate counseling services; and
- maintaining records identifying those students who receive academic counseling;

3. Attempt to reduce its withdrawal rate by conforming with its accrediting agency's standards of satisfactory progress and with those described in 34 CFR 668.14, and improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program in consultation with its academic accrediting agency;

4. Increase the frequency of reviews of in-school status of borrowers to ensure the institution's prompt recognition of instances in which borrowers withdraw without notice to the institution—reviews must be conducted each month;

5. Expand its job placement program for its students by—

   - increasing contacts with local employers, counseling students in job search skills;
   - exploring with local employers the feasibility of establishing internship and cooperative education programs;
   - •attempting to improve its job placement rate and licensing examination pass rate by improving its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program in consultation with the cognizant accrediting body; and
   - establishing a liaison for job information and placement assistance with the local office of the United States Employment Service and the Private Industry Council supported by the U.S. Department of Labor.

6. Remind the borrower of the importance of the repayment obligation and of the consequences of default, and update the institution's records regarding the borrower's employer and employer's address as part of the contacts with the borrower under 674.42(b);

7. Obtain from the borrower, at the time of a borrower's admission to the institution, information regarding references and family members beyond those provided on the loan application, in order to provide the institution or its agent with a variety of ways to locate a borrower who later relocates without notifying the institution;

8. Explain to a prospective student that the student's dissatisfaction with, or nonreceipt of, the educational services being offered by the institution does not excuse the borrower from repayment of any Federal Perkins Loan;

9. Use a written test and intensive additional counseling for those borrowers who fail the test to ensure the borrower's comprehension of the terms and conditions of the loan including those described in 674.16 and 674.42(a) as part of the initial loan counseling and the exit interview;

10. During the exit interview provided to a borrower—

    - explain the use by institutions of outside contractors to service and collect loans;
    - provide general information on budgeting of living expenses and other aspects of personal financial management; and
    - provide guidance on the preparation of correspondence to the borrower's institution or agent and completion of deferment and cancellation forms;

11. Use available audio-visual materials such as videos and films to enhance the effectiveness of the initial and exit counseling;

12. Conduct an annual comprehensive self-evaluation of its administration of the Title IV programs to identify institutional practices that should be modified to reduce defaults, and then implement those modifications;

13. Delay loan disbursements to first-time borrowers for 30 days after enrollment; and

14. Require first-time borrowers to endorse their loan check at the institution and to pick up at the institution any loan proceeds remaining after deduction of institutional charges.

ASSIGNMENT

Procedures for submitting assignment of defaulted Federal Perkins, Direct, or Defense Loans were discussed in "Dear Colleague" letter CB-94-22, dated October 1994. ED will publish updated assignment procedures in 1995.

Assignment conditions

A school may assign a defaulted Federal Perkins Loan or NDSL to the U.S. Department of Education if—

- the school has not been able to collect despite following due diligence procedures, including at least a first level of collection and litigation, if required by the regulations in effect on the date the loan entered default;
- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is $25 or more; and
- the loan has been accelerated.

Balance of $25 or more may be assigned to ED

A promissory note may be assigned only during the submission period established by ED.

Documents required for assignment

A school must submit the following documents to ED for any loan it proposes to assign:

1. an assignment form—ED Form 553, provided by ED and completed by the school, which must include a certification by the school that it has complied with the due diligence procedures discussed in Section Six of this chapter, including at least a first level collection effort;
2. the original promissory note or a certified copy of the original note;
3. a copy of the repayment schedule;
4. a certified copy of any judgment order entered on the loan;
5. one photocopy of completed ED Form 553;
6. a complete statement of the repayment history;
7. copies of all approved requests for deferment and cancellation;
8. a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;
9. documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection or litigation services, and has notified that firm to cease collection activity on the loans;

10. copies of all pleadings filed or received by the institution on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable; and

11. Documentation that the institution has complied with all of the due diligence requirements if the school has a cohort default rate that is equal to or greater than 20 percent as of June 30 of the second year preceding the submission period.

Limitations on assignment

ED will not accept assignment of a loan if—

- the school has not included the borrower's Social Security number;
- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the loan obligation is nondischargeable and has entered a judgment against the borrower, or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- the school has sued the borrower, unless the judgment has been entered against the borrower and assigned to the United States; or
- the loan has been cancelled because the borrower has died or because the borrower has filed for, or been granted, cancellation due to permanent and total disability.

Assignments should be mailed to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4136

School must repay Fund for unenforceable portion

If ED accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, ED acquires all rights, title, and interest in the loan.* After ED has accepted the assignment of the loan, the school must endorse and forward to ED any subsequent payment(s) the borrower may make.

If ED later determines an assigned loan to be unenforceable because of an act or omission on the part of the school or its agent, the school will have to compensate the Federal Perkins Loan Fund in the amount of the

unenforceable portion of the outstanding balance. Once the Fund is reimbursed, ED transfers all rights to the loan back to the school.

A school must consider a borrower whose loan has been assigned to the United States for collection to be in default on the loan for the purpose of eligibility for assistance from SFA programs, until the borrower provides the school with confirmation from ED that he or she has made satisfactory arrangements to repay the loan.

DEFAULT PREVENTION SOFTWARE

IDPS computer software

ED's computer software called Institutional Default Prevention System (IDPS) is available free of charge to schools participating in our federal student aid programs. IDPS is a valuable tool for default prevention and reduction. To use IDPS, a school needs an IBM-compatible personal computer with at least 640K memory, MS-DOS (version 2.1 or newer), a hard disk (10 Megabytes or larger), and a printer. "Dear Colleague" letter 92-S-67, September 1992, included a description of the software and an order sheet. Questions about IDPS should be addressed to:

Attn: IDPS Software Distribution
U.S. Department of Education
7th and D Streets, S.W., ROB-3, Room 5366
Washington, D.C. 20202

Contact: Francis Tang
Telephone Number: (202) 708-7833

DEFAULT AND STUDENT ELIGIBILITY

The General Provisions regulations specify that, to be eligible to receive assistance under the SFA programs, a student must not be in default and must *certify* that he or she is not in default on any SFA loan (this certification is found on the back of Part 1 of the 1995-96 Student Aid Report). However, the regulations also provide the following exception to the above rule: a student who is in default on a loan made under the Federal Perkins Loan Program (a Federal Perkins, Direct, or Defense loan) is eligible to receive assistance under an SFA program if the student is otherwise eligible and one of the following conditions is met:

- the school that made the loan (or the Secretary, if the loan has been assigned to ED) certifies that the student has made satisfactory arrangements to repay that loan or
- the loan has been paid in full.

"Satisfactory arrangements to repay" is defined in the November 30, 1994 Final Rule as the "establishment of a new written repayment agreement and the making of one payment each month for six consecutive months."

A student who is in default but has made satisfactory arrangements to repay the loan will receive a comment on his or her Student Aid Report that says—

> "WARNING: Our records indicate that you are in DEFAULT on a federal student loan held by the U.S. Department of Education [or a state guaranty agency]. Since you have made satisfactory arrangements to repay this loan, you may be eligible to receive additional federal student aid at this time. However, if you fail to make scheduled payments, you will be denied future federal student aid."

When a school has filed suit to collect a defaulted Federal Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. After a judgment is satisfied on the defaulted loan, the student would again be eligible for future awards under these programs if all other eligibility criteria are met. However, if a judgment is satisfied *involuntarily* (such as by garnishing the borrower's wages), a school should consider this as evidence of unwillingness to repay and should deny further loan assistance to the borrower.

Note that an SFA loan that is discharged in bankruptcy is not considered to be in default for the purpose of obtaining further grant or work assistance under the SFA programs. It is no longer a requirement that a borrower reaffirm a loan discharged in bankruptcy in order to be eligible to obtain additional student loans; this is a provision of the Bankruptcy Amendments Act of 1994, effective October 22, 1994 (refer to Section Nine of this chapter).

As stated earlier, the Federal Family Education Loan (FFEL) regulations allow a borrower to receive a Consolidation Loan that could include a defaulted Federal Perkins Loan on which the borrower has made satisfactory repayment arrangements if the defaulted loan will reenter repayment through consolidation. (Consolidation Loans are discussed in Chapter 10). A defaulted loan that is being repaid under a *court order* would remain in default status until paid and is not eligible for consolidation.

SECTION NINE: BANKRUPTCY

For the best advice on how to proceed when a borrower files for bankruptcy, schools should consult an attorney. The basic actions a school must take are covered here, in "Dear Colleague" letter GEN-90-41, dated December 1990, and in Section 674.49 of the November 30, 1987 regulations as amended by the regulations published in the **Federal Register** on July 21, 1992 and November 30, 1994.

Stop collection outside bankruptcy proceedings

If the school receives notice that a borrower has filed for bankruptcy, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser for loans made prior to July 23, 1992.

Proof of claim

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Changes in bankruptcy law reflected in 7/21/92 regulations

Section 674.49 of the regulations published in the **Federal Register** on July 21, 1992 includes the provisions of the Crime Control Act of 1990 that extend from 5 years to 7 years the period of time in which a borrower cannot have a loan discharged for chapter 7, 11, 12, and 13 bankruptcies, and provide that an SFA loan is dischargeable during that same 7-year period only if the borrower proves that repayment would constitute an undue hardship. The July 21, 1992 regulations also reflect the changes made to the Bankruptcy Code by section 3007 of the Omnibus Budget Reconciliation Act of 1990; the regulations provide that a discharge under 1328(a) of the Bankruptcy Code does not discharge an education loan unless the loan entered the repayment period more than 7 years, excluding periods of deferment, before the filing of the petition.

PROCEDURES WHEN BORROWER REQUESTS DISCHARGE BASED ON UNDUE HARDSHIP

If a borrower files for bankruptcy requesting discharge of a loan on the ground of undue hardship under Chapter 7, 11, 12, or 13 of the Bankruptcy Code, or under 11 U.S.C. 1328(b), the school must follow the procedures discussed below.

If the loan has been *in repayment for 7 years or more* (excluding deferment periods), the school may *not* oppose a discharge that has been requested on the ground of undue hardship.

If the loan has been *in repayment for less than 7 years*, the school must determine, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents. If this would not be the case, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. The school may compromise a portion of that amount, if necessary to obtain a judgment.

When a borrower has filed a request for discharge on the ground of undue hardship, if the school is required under the steps described above to oppose the borrower's request, the school may file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

PROCEDURES WHEN BORROWER REQUESTS ADJUSTMENT IN REPAYMENTS

Under Chapter 13, the borrower may request an adjustment in repayments. The borrower proposes a repayment plan, which is then ruled on by the bankruptcy court. If the borrower's repayment plan proposes full repayment of the loan, including all principal, interest, late charges and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed, the school must determine, from its own records and court documents, the

amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed.

The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325.* Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.

- Second, the debtor must use all income not needed to support him/herself and dependents to pay creditors under the plan.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307* for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

School must monitor borrower's compliance

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. For a loan that entered repayment more than 7 years before the borrower filed for bankruptcy (excluding periods of deferment), if the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b),* the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under

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* 11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Federal Perkins Loan bankruptcy cases. 11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding. 11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan. 11 U.S.C. 1328(b) concerns the discharge of debts. As stated previously, for the best advice on how to proceed when a borrower files for bankruptcy, schools should consult an attorney.

Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding, or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case, and if a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Resuming billing and collection if loan is not discharged

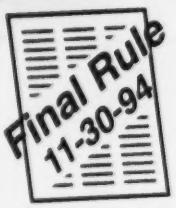
A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 1328(a) or U.S.C. 1328(b) unless (1) the court has found that repayment would impose an undue hardship or (2) the loan entered the repayment period more than 7 years before the filing of the petition and the borrower's plan made some provision regarding the borrower's loan obligation or general unsecured debts. For more information, see Section 674.49(f) of the July 21, 1992 regulations.

Agreement to repay loan discharged in bankruptcy no longer required

As stated earlier, a borrower is no longer required to establish eligibility for a new student loan by agreeing to repay a loan discharged in bankruptcy. As a result of the Bankruptcy Reform Act of 1994, effective October 22, a student may not be denied student financial assistance from SFA programs, including the Federal Perkins Loan Program, solely on the basis of a bankruptcy determination. If a student has filed for or received a discharge in bankruptcy, has had a student loan discharged in bankruptcy, or has not paid a student loan that has been determined by a court of law to be dischargeable in bankruptcy, the bankruptcy may be considered as evidence of an adverse credit history but cannot be the basis for denial of a future loan from the Federal Perkins Loan or other student loan programs. However, schools may continue to consider the student's *post*-bankruptcy credit history in determining willingness to repay the loan.

SECTION TEN: CREDIT-BUREAU REPORTING

The provisions discussed in this section regarding credit-bureau reporting are included in the Final Rule published in the **Federal Register** on November 30, 1994.



Include default information in promissory notes

The promissory notes for a Federal Perkins or NDSL made by a school on or after July 23, 1992 must state that the school is required to disclose to any one national credit bureau the amount of the loan made to the borrower, and that if the borrower defaults on the loan, the school must disclose that the borrower has defaulted, along with other relevant information, to the same national credit bureau to which it originally reported the loan.

Provide default information to student

Before a school makes its first disbursement to a student, the school must provide the student with certain information, including a statement in writing that the school must report any default on the loan to a national credit bureau. This statement may be part of the written application material, part of the promissory note, or on a separate written form.

Report disbursement to credit bureau

At the time each disbursement is made, the school must report to any one national credit bureau with which ED has an agreement the amount of the disbursement, the date the disbursement was made, and the balance outstanding on the loan.

Credit bureaus with which ED has an agreement

The Department has entered into an agreement with each of the four national credit bureaus listed below. In order to comply with the credit-bureau reporting requirement, schools should enter into an agreement with *one* of the following national credit bureaus:

Trans Union:	Contact person—Lanny Stone	(312) 466-7961
	or David Huesing	(312) 466-7863
TRW:	Contact person—Debbie Taylor	1-(800) 831-5614 Ext. 7532
CBI Equifax:	Contact person—Lisa Mendelson	
	or Phyllis Reichert	(412) 787-7365

	Consumer Credit Association, Inc.: Contact person—Jim Jolly	(713) 589-1990 Ext. 113
Credit bureau fees	Each credit bureau charges a fee for its services. These fees differ from national credit bureau to national credit bureau. These national credit bureaus also have affiliated credit bureaus, which may have different fees from those of the national credit bureaus. ED does not keep a list of these affiliated bureaus and their fees. A school must obtain ED's approval before using an affiliated credit bureau.	
Credit bureau information in exit interview	During the exit interview at the time a borrower leaves school, the school must explain to the borrower the consequences of defaulting including, at a minimum, possible referral to a collection firm, reporting to a credit bureau, and litigation.	
Credit bureau information in final demand letter	If the borrower fails to respond to the school's billing notices or to the overdue notices, the school must send a final demand letter within 15 days after the second overdue notice. This letter must inform the borrower that unless the school receives a payment or a request for deferment, postponement, or cancellation within 30 days of the date of the letter, it will refer the account for collection or litigation and will report the default to a credit bureau.	
Reporting the default	If a borrower does not satisfactorily respond to the final demand letter or the following telephone contact, the school must report the defaulted account to any one national credit bureau and continue attempting to collect the amount due, using the school's own staff or a collection agency.	
Report changes in account status	If the account status of a borrower's loan changes, the school must report the changes to the same national credit bureau to which it originally reported the default and must report the changes according to the procedures of that credit bureau. If a school receives an inquiry from any credit bureau regarding the information reported on the loan amount, the school must respond within one month of receiving the inquiry (refer to Section 674.45(b) of the November 30, 1994 Final Rule).	
"Satisfactory arrangements to repay"	A borrower who has made "satisfactory arrangements to repay" a defaulted loan re-establishes his or her eligibility to apply for federal student aid. However, the loan is still considered to be in default and must continue to be reported as defaulted to a national credit bureau organization with which ED has an agreement. "Satisfactory arrangements to repay" is defined in the November 30 Final Rule as the "establishment of a new written repayment agreement and the making of one payment each month for six consecutive months."	

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Report rehabilitated loan

Section 674.5 (e) of the November 30, 1994 Final Rule provides that a defaulted loan is considered to be "rehabilitated" after the borrower has signed a new repayment agreement and has made one payment each month for 12 consecutive months. Within 30 days of the rehabilitation, the school must report the rehabilitation to the same national credit bureau to which it originally reported this defaulted loan. A rehabilitated loan is not included in determining a school's cohort default rate.

Costs chargeable to the Fund

The cost associated with reporting Federal Perkins Loan disbursements to a national credit bureau may not be charged against the Federal Perkins Loan Fund. However, the school may use its administrative cost allowance to pay for these charges. Collection costs, which include the costs associated with reporting defaulted Federal Perkins Loan borrowers to a national credit bureau, must be charged to the borrower. The Fund can be charged for these costs only in relation to the amount collected from the bureau, as described in Section Seven of this chapter.

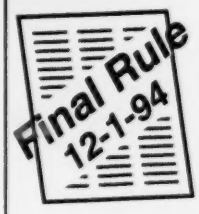
Disclosure of borrower's account information

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if such a disclosure would help enforce the terms and conditions of the loan. This permits the release of information concerning loans in both default and nondefault status. It is not a violation of the Family Educational Rights and Privacy Act (FERPA) to disclose student account information to creditors, because the report would help enforce the terms and conditions under which the financial aid was awarded. This policy applies whether the reporting takes place at the time the loan is being disbursed or at the time the loan is in default status. Reporting good credit history as well as reporting defaulted loans is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower. The disclosure would provide the negative reinforcement of being turned down for credit if the student's account is in default; disclosure would reward students who keep their loans in nondefault status by giving them a good credit rating.

Borrower may appeal accuracy of information reported

The Fair Credit Reporting Act allows a borrower/debtor to appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. The school should be aware of this right and should be prepared to handle and potentially accept the borrower's correction of information in accordance with the provisions of the Act.

SECTION ELEVEN: MAINTAINING PROGRAM FUNDS



The "cash management" regulations—the General Provisions Final Rule published in the **Federal Register** on December 1, 1994—include provisions in Section 668.164, summarized below, that affect the way a school must maintain program funds for the Federal Perkins Loan Program.

Most schools that participate in the Federal Perkins Loan Program must maintain—

- an interest-bearing account that is federally insured or secured by collateral of value reasonably equivalent to the amount of SFA program funds in the account or
- an investment account consisting predominantly of low-risk income-producing securities such as obligations issued or guaranteed by the United States.

If a school maintains federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

However, a school is not required to maintain an interest-bearing account if one of the conditions listed below applies to the school:

- in the prior award year, the school drew down less than $3 million from the SFA programs;
- for the total amount of SFA program funds that the school drew down in the prior award year and maintained in an interest-bearing account, the school earned less than $250 in interest on those funds; or
- for the total amount of SFA program funds that the school draws down during the award year, the school demonstrates by its cash management practices that it would not earn over $250 in interest if it maintained those funds in an interest-bearing account.

If a school is eligible to maintain a non-interest-bearing account, the account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA program funds in the account.

A school must remit at least annually to ED the interest or investment revenue earned on SFA program funds maintained in an interest-bearing or investment account, with the following exceptions:

- A school must retain for the purposes of the Federal Perkins Loan Program all interest or investment revenue earned on Federal Perkins Loan Program funds maintained in an interest-bearing or investment account.

- Other than interest or investment revenue earned on Federal Perkins Loan Program funds, a school may retain for administrative expense up to $250 per year of the interest or investment revenue earned on SFA program funds maintained in an interest-bearing or investment account.

ED may require a school to maintain SFA program funds, including the funds a school maintains for purposes of the Federal Perkins Loan Program, in a separate bank account that contains no other funds if ED determines that—

1. The school's accounting and internal control systems do not—
   - identify the cash balances of SFA program funds maintained in the school's bank account as readily as if those funds were maintained for each program in a separate account or
   - identify adequately the interest or investment revenue earned on SFA program funds maintained in its bank account;
2. The school's financial records—
   - are not maintained on a current basis;
   - do not reflect accurately all SFA program transactions; or
   - are not reconciled at least monthly; or
3. The school has otherwise failed to comply with the recordkeeping and reporting requirements in the December 1, 1994 General Provisions Final Rule and the regulations that govern each SFA program in which the school participates.

A school must exercise the level of care and diligence required of a fiduciary with regard to maintaining and investing federal funds.

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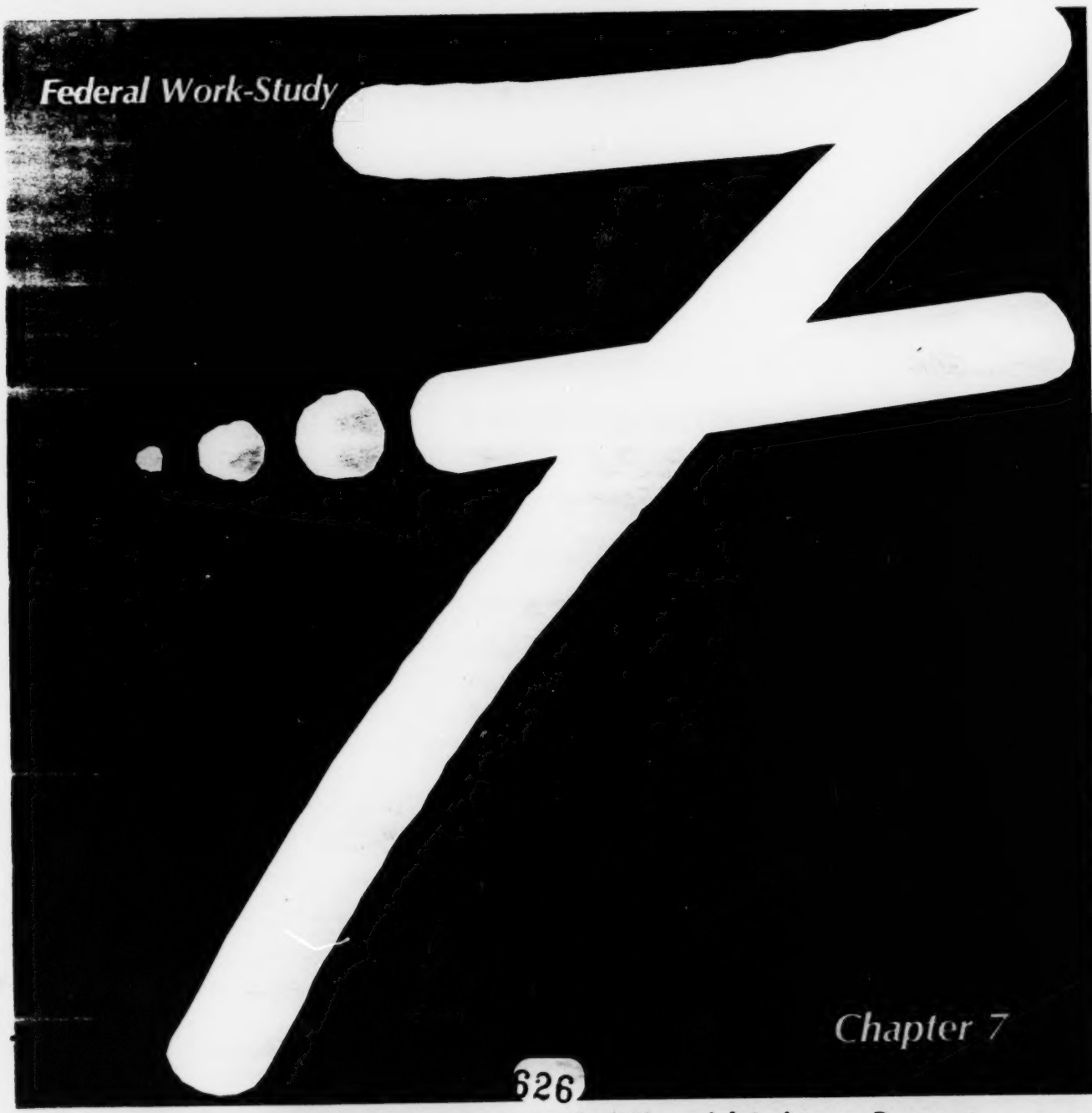

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INTRODUCTION

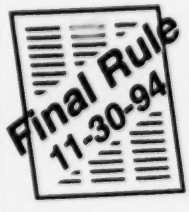
PROGRAM PURPOSE

The purpose of the Federal Work-Study (FWS) Program—formerly called the College Work-Study (CWS) Program—is to give part-time employment to undergraduate and graduate students who need the income to help meet the costs of postsecondary education and to encourage FWS recipients to participate in community service activities. Since the beginning of the 1994-95 award year, schools have been required to utilize money from their FWS Program funds to compensate students employed in community service jobs (see below).

FINAL RULE, NOVEMBER 30, 1994

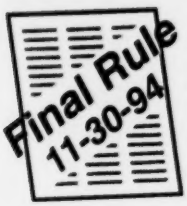
A Final Rule amending the FWS Program was published in the **Federal Register** on November 30, 1994. Changes to the regulations are effective on July 1, 1995. The Final Rule incorporates into the regulations many provisions of various statutes listed in the Introduction to Chapter Five. These provisions were self-implementing and are already in effect. The Final Rule also institutes changes to the FWS Program. These changes are effective July 1, 1995 and are listed here:

- A school may provide additional FWS funding to a student whose need has been met until that student's cumulative earnings from all need-based employment exceeds his or her need by $300 (see Section 675.14 and Section Two of this chapter).



- A school may not use FWS funds to pay a student after he or she has earned $300 or more over his or her financial need (see Section 675.26(a)(3) and Section Two of this chapter).

- Under Section 676.18(c) of the November 30 Final Rule for the FSEOG Program, a school that transfers funds to the FSEOG Program from the FWS Program during an award year must



transfer any unexpended FWS funds *back* to the FWS Program at the end of the award year (refer to Section Five of this chapter).

- The Federal share of FWS wages may not exceed *50 percent* for a student whose employer is a private for-profit organization (see Section 675.26(a)(2) and Section Five of this chapter).

WORK-COLLEGES PROGRAM

The Higher Education Amendments of 1992 authorized the Work-Colleges Program. Part 675 of the November 30, 1994 Final Rule includes a new Subpart C—Work-Colleges Program (Sections 675.41 through 675.50). Schools that satisfy the definition of "work-college" may apply to ED to participate in the program. Although no funding was provided for the program for the 1994-95 award year, Congress has authorized the use of up to $1.5 million of FWS funds appropriated for fiscal year 1995 for separate 1995-96 allocations to approved Work-College institutions. A work-college may transfer funds from its allocation for the FWS Program and/or Federal Perkins Loan Program to fund the school's Work-Colleges Program.

The purpose of the Work-Colleges Program is to recognize, encourage, and promote the use of comprehensive work-learning programs as a valuable educational approach when it is an integral part of the school's educational program and a part of a financial plan that decreases reliance on grants and loans. The program's purpose is also to encourage students to participate in community service activities (Section 675.43 of the Final Rule).

The term "work-college" is defined as "an eligible institution that—

(1) is a public or private nonprofit school with a commitment to community service;

(2) has operated a *comprehensive work-learning program* for at least two years;

(3) requires—

(i) all resident students who reside on campus to participate in a comprehensive work-learning program and

(ii) the provision of services as an integral part of the school's educational program and as part of the school's educational philosophy; and

(4) Provides students participating in the comprehensive work-learning program with the opportunity to contribute to their education and to the welfare of the community as a whole."

A "comprehensive student work-learning program" is defined as "a student work/service program that—

(1) is an integral and stated part of the institution's educational philosophy and program;

(2) requires participation of all resident students for enrollment, participation, and graduation;

(3) includes learning objectives, evaluation, and a record of work performance as part of the student's college record;

(4) provides programmatic leadership by college personnel at levels comparable to traditional academic programs;

(5) recognizes the educational role of work-learning supervisors; and

(6) includes consequences for nonperformance or failure in the work-learning program similar to the consequences for failure in the regular academic program."

Additional information about the Work-Colleges Program is in Part 675, Subpart C of the November 30, 1994 Final Rule.

SECTION ONE: SELECTING ELIGIBLE RECIPIENTS AND ASSIGNING JOBS

GENERAL STUDENT ELIGIBILITY REQUIREMENTS

Financial need

To be eligible for an FWS job, a student must meet all eligibility requirements listed in Chapter Two, Section One. In addition, a student must have "financial need"—his or her cost of attendance must be greater than the Expected Family Contribution (EFC). A financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need (refer to Section Two of this Chapter). However, unlike the other two campus-based programs, the FWS Program does not require that priority be given to students who have *exceptional* financial need. In choosing students for FWS employment, schools must follow the selection procedures discussed in Chapter Five, Section One.

Undergraduate and graduate students

Both undergraduate and graduate students are eligible to apply for employment under the FWS Program. A student who has earned a bachelor's or first professional degree is also eligible to receive an FWS job to pursue an *additional undergraduate* degree (refer to the definition of undergraduate student in Section 675.2 of the Final Rule published in the **Federal Register** on November 30, 1994).

Less-than-full-time & independent students

Since the beginning of the 1993-94 award year, a school has been required to offer at least 5 percent of its federal FWS allocation to *less-than-full-time students* and *independent students* if the allocation is partly based on the financial need of these students and the financial need of these students exceeds 5 percent of the total financial need of all students at the school (see Chapter Five, Section One).

Teacher certification program

A school may award an FWS job to a student who is enrolled or accepted for enrollment at least half time in an eligible teacher certification program. Criteria for an eligible teacher certification program are discussed in Chapter Five, Section One.

ASSIGNING JOBS

Make jobs reasonably available

A school must make FWS jobs reasonably available to all eligible students at the school. To the extent funds are available, the school must also make available "equivalent employment" (that is, similar non-FWS jobs offered or arranged by the school) to all students at the school who want to work. To the maximum extent practicable, a school must provide FWS jobs that will complement and reinforce each recipient's educational program or career goals.

Complement academic/ career goals

General considerations

In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors.

Jobs on or off campus

FWS jobs may be "on campus" or "off campus" (see Section Four of this Chapter). Off-campus jobs must be in the public interest if the work is for a federal, state, or local public agency, or for a private nonprofit organization. However, a school may use part of its FWS allocation to provide jobs in private for-profit organizations.

Community services jobs

FWS employment may be used for community services programs and programs providing supportive services to students with disabilities (types of employment are discussed in Section Four of this chapter).

JOB DESCRIPTIONS

Each FWS position should have a job description that includes the following:

- name and address of employer (department, public agency, nonprofit organization);
- purpose of job;
- duties and responsibilities;
- job qualifications;
- wage rate or range;
- length of employment (beginning and ending dates); and
- name of supervisor.

Purposes of job description

The job description has several purposes. It will clearly define whether the job qualifies under the FWS Program. It will provide the information needed to explain the position to students and help them select the type of employment closest to their educational or career objectives. A job description will help the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need. The description also establishes a written record, for both student and employer, of the job's duties and responsibilities, so there can be no misunderstanding.

Community service job description

If a student is employed with an agency or organization that provides community services, the school should, as with any other FWS position, have a job description that includes the duties and the responsibilities. For example, a community food bank appears to be the type of organization that has the kinds of jobs that satisfy the definition of community services; however, the institution must review the individual job descriptions and determine if certain positions at the community food bank qualify. If the FWS recipient will work as a clerk in the food bank, the duties in the job description for the position of clerk would have to meet the definition of "community services" in the FWS regulations before the job could be considered a community service job (refer to the definition in Section Four of this chapter). The duties must include providing services designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. It is important to note that work performed off campus for a nonprofit agency must also be "in the public interest" (see the discussion on page 7-24).

EMPLOYMENT CONDITIONS AND LIMITATIONS

The provisions discussed below apply to all work under FWS, on or off campus.

General conditions

FWS employment must be governed by employment conditions, including pay, that are reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

Minimum wage

FWS employers must pay students at least the current federal minimum wage. The Fair Labor Standards Amendments of 1989 set a minimum hourly wage of $4.25 and also established a "subminimum" or training wage that is lower than the minimum wage. However, it is not permissible to pay wages at the subminimum wage rate to students in FWS jobs.

Must not displace regular workers

FWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's

	employees must not be replaced with FWS students. Replacement is interpreted as displacement.
Conditions applicable to employment in building used for religious purpose	FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment will violate this restriction, a school should ask: (1) What is the purpose of that part of the facility in which the work will take place? and (2) What is the nature of the work to be performed? If that part of the facility is used for religious worship or sectarian instruction, the work cannot involve construction, operation or maintenance responsibilities. If that part of the facility is not being used for religious worship or sectarian instruction, the school should make sure any work meets general employment conditions and other limitations are not violated.
Fees or commissions prohibited	Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit to be solicited any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if they are a condition of employment, and if the employer's non-FWS employees must also pay dues.
Voluntary services prohibited	The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under FWS must be paid for all hours worked.
Academic credit for Work-Study	The fact that a student may receive academic credit from the work performed does not disqualify the job under FWS. However, there are certain restrictions. For a student who must complete an internship or practicum as part of his or her degree requirement, the internship or practicum does not qualify under FWS unless the employer normally pays all other persons who hold the same position or has paid all other persons who have held the same position in the past. If the employer normally pays or has paid these persons, the internship or practicum qualifies as an FWS job. The fact that a student receives academic credit for a FWS job does not mean the student should be paid any less than he or she would be paid if no academic credit is received. A student may not be paid for receiving instruction in a classroom, laboratory, or other academic setting.
Garnishment of FWS wages	A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; paying FWS funds in such cases would mean that funds would not be used "solely for educational purposes"—a requirement for SFA funds. As schools may not

necessarily be the employers in an off-campus employment arrangement, they must adopt effective procedures to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

SECTION TWO: CALCULATING FWS AWARDS

NEED ANALYSIS FORMULAS

As stated earlier, a student must have "financial need" to be eligible for an FWS job—the student's cost of attendance must be more than the amount of his or her Expected Family Contribution (EFC) as calculated by the Federal Need Analysis Methodology. Procedures for determining a student's cost of attendance and eligibility for aid from SFA programs are discussed in Chapter Two, Section Two. A financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need. "Resources," as defined in the campus-based regulations, are listed in Chapter Five, Section Two. Additional information about resources and overawards, as they apply to the FWS Program, is included below.

Cost of attendance
- EFC
= Financial need

DETERMINING MAXIMUM FWS ELIGIBILITY

In determining the maximum FWS award a student is eligible to receive, the aid administrator must take into account the following resources:

- those resources the aid administrator can reasonably anticipate at the time aid is awarded to the student;
- those the school makes available to its students; or
- those the aid administrator knows about.

Maximum FWS award =
Financial need
- Other resources

The sum of a student's FWS award plus other resources may not exceed his or her financial need.

Non-need-based earnings, such as earnings from a job a student locates on his/her own with a private employer, are not considered to be a resource for the current award year, because they will be reported on the application for federal student aid for the subsequent award year and will be used to determine the EFC for the subsequent award year. Only net income from *need-based* employment is considered as a resource.

Non-need-based employment is not a resource

Examples of need-based employment would be employment under the Department of Veterans Affairs' work-study program, and employment with a State if based on the student's need for assistance to pay for educational expenses.

The school monitors each student's net income from need-based sources, to determine if the student's need has been met, by examining the school's payroll records of disbursements to the student under the FWS Program and any other need-based employment program. The school's FWS fiscal records must be reconciled at least monthly.

EARNINGS APPLIED TO COST OF ATTENDANCE

Subtract taxes and job-related costs

Not all of a student's FWS earnings are available to the student for educational expenses. Some of the student's expenses may be job-related expenses. Therefore, to determine the net amount of a student's FWS earnings that will be available to help pay for his or her cost of attendance, the school must subtract estimated taxes and job-related costs from the student's gross FWS earnings. Examples of job-related costs include uniforms, the cost of meals at work, and transportation to and from work. During vacation periods, room and board may also be considered job-related costs if the student is paying them only because he or she has an FWS job.

For example, to earn a net FWS award of $1,000, a student with Social Security tax of 7.65 percent and $100 in job-related expenses may earn up to $1,176.50 in gross earnings ($1,000 + $76.50 + $100). Only the net earnings of $1,000 is available to count toward the student's need for federal student aid and to help pay for the student's cost of attendance. Federal and state income taxes may also be withheld from a student's wages. In some cases, these should also be deducted from the student's gross income to calculate the net amount available to the student; however, if the aid administrator is certain that the student's taxes will be refunded by the Internal Revenue Service, they should not be considered in calculating the net wages available to the student for the FWS award.

If the student works during a vacation or other period when he or she is not attending classes, his or her net FWS earnings (earnings minus taxes and job-related expenses) must be counted toward payment of the student's cost of attendance for the *next* enrollment period.

Schools are encouraged to tell students what amount of earnings will be counted toward payment of their cost of attendance. Of course, at the end of a student's employment, the school will need to review the estimate to see if it was accurate and make adjustments if it was not.

FWS OVERAWARDS

A detailed discussion of the treatment of overawards in SFA programs is included in Chapter Two, Section Two of this Handbook. Overawards in the FWS Program are treated a little differently than overawards in other SFA programs.

A school may award FWS employment to a student only if the award, when combined with all other resources, does not exceed the student's need. If the student receives additional resources *at any time during the award period* that were not considered in calculating the student's FWS award, and these resources—including the expected FWS wages—will exceed the student's need, the overaward is the amount that exceeds need.

FWS employment must be discontinued when a student employed under the program receives a financial aid package that exceeds his or her need by more than $300. Resources that must be counted as part of the student's financial aid package include wages earned from any other *need-based* employment. Wages earned from non-need-based employment are not considered resources and, thus, cannot cause an overaward. FWS earnings of up to $300 in excess of need are not considered to be an overpayment in the current award year and should not be counted in the following award year, either as a resource or as income to be included in calculating the EFC. Income from a non-need-based job will be counted as taxable income and included in calculating the student's EFC for the following award year.

TREATMENT OF RESOURCES IN EXCESS OF NEED

If a school learns that a student earning FWS wages has received additional resources that were not included in calculating the student's FWS eligibility and the total resources would exceed the student's financial need by more than $300, the school must take certain steps:

(1) A school may attempt to reduce or eliminate the overaward by using a *nonsubsidized* Federal Stafford Loan, Federal PLUS loan, or state-sponsored or private loan to cover the student's EFC, if this has not already been done.

(2) If the student's financial aid includes a Federal Stafford Loan, the school must first return to the lender any of the Federal Stafford disbursement (or portion of a disbursement) that has not yet been delivered to the student and that exceeds the amount of assistance the student is eligible to receive. A student with a Federal Stafford Loan who is employed under the FWS Program is not considered to

have an overaward under the Federal Stafford Loan Program unless the student's income derived from any need-based employment exceeds the student's need by more than $300.

(3) If, after eliminating any Federal Stafford overaward, the student's total resources exceed the student's need by more than $300, the school must recalculate the student's need to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student; if the student's need has increased, and the total resources do not exceed the increased need by more than $300, the school is not required to take any further action.

(4) If the school recalculates the student's need and determines that the student's need has *not* increased, or that his or her need has increased but the total resources still exceed his or her need by more than $300, the school must cancel any loan or grant (other than a Federal Pell Grant) that has not already been disbursed.

(5) If the school recalculates the student's need and determines that the student's need has increased, and the total resources do not exceed that increased need by more than $300, the school may use FWS funds to pay the student until the FWS award has been earned or until the student's increased need has been met. In addition the school may continue employing the student under FWS after the full amount of the FWS award has been earned and the student's financial need has been met, but may only pay the student with FWS funds up to the time the income from *need-based* employment exceeds the student's financial need by more than $300. At that point, FWS funds may no longer be used to pay the student. The school may continue to employ the student, but funds other than FWS funds must be used to pay the wages.

SECTION THREE: PAYING STUDENTS

For information about determining the federal share and institutional share of FWS payments to students, refer to Section Five of this chapter.

ESTABLISHING WAGE RATES

Undergraduate students are paid FWS wages on an hourly basis only. Graduate students may be paid by the hour or may be paid a salary. Regardless of who employs the student, the school is responsible for making sure the student is paid for work performed.

Determining work schedule

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student can work, provided no overaward occurs. (See Section Two of this chapter.)

A student must be paid at least the current Federal minimum wage, but there is no maximum wage rate. At the time this chapter was printed, the minimum wage was $4.25 per hour. (As noted earlier, it is not permissible to pay a lower "subminimum" or "training" wage to students in FWS jobs.) A school may not count fringe benefits as part of the wage rate and may not pay a student commissions or fees. In determining an appropriate rate, the school must consider the following:

Pay related to skills

- the skills needed to perform the job;
- how much persons with those skills are paid in the local area for doing the same type of job;
- rates the school would normally pay similar non-FWS employees; and
- any applicable federal, state, or local laws that require a specific wage rate.

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis. For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing comparable jobs should be paid comparable wages, whether the jobs are performed by students at different class levels or by a student and a regular employee.

DISBURSEMENT

Pay student at least monthly

A school must pay a student at least once a month. The federal share of FWS compensation must be paid by check or similar method (a draft or purchase order or electronic transfer to the student's bank account, for example) that the student can cash on his or her own endorsement. The school may not directly transfer the federal share to a student's account at the school, nor may it obtain a student's power of attorney to authorize any disbursement of funds unless ED has granted prior approval. Such a power of attorney (to allow a school to act on behalf of a student) would not be granted by ED unless the school could demonstrate that there is no one else who could act on behalf of the student (such as a relative, landlord, or member of the clergy, for example.)

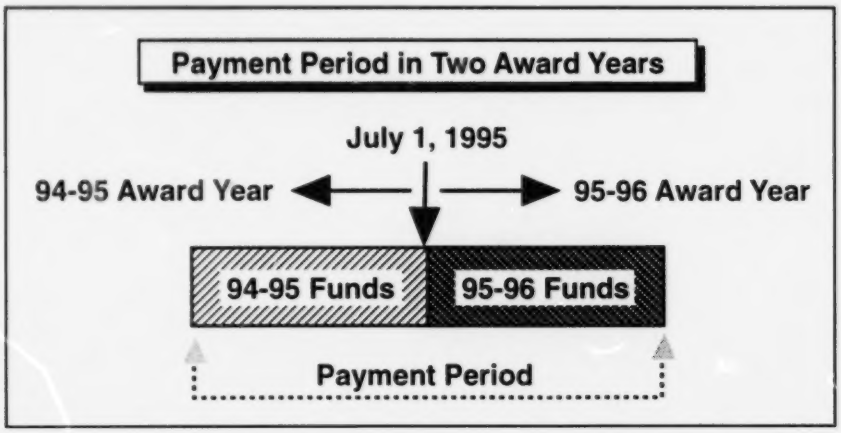
If the school pays its share of FWS wages by *check*, it must pay the non-federal share to the student at the same time it pays the federal share. (See Section Five of this chapter for a discussion of federal and institutional shares of FWS compensation.) FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while the student was still in school. However, when a student has withdrawn from school, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving payment.

Noncash contribution

If the school pays its share of FWS wages for an award year in the form of a *noncash contribution* (tuition, fees, services, or equipment), it must do so before the final payroll period of the award year. If the school pays this share in the form of *prepaid* tuition, fees, services or equipment, it must give students—again, before the end of the final payroll period—a statement of the amount of the noncash contribution earned. (For more information on using noncash contributions as part of the school's share of FWS wages, see Section Five of this chapter.)

Payment period crosses award years

When a payment period is in two award years (before and after July 1), the student is ordinarily paid for compensation earned through June 30 with funds allocated for the first award year, and, for compensation earned beginning July 1, with funds allocated for the following award year. For example, for a payment period extending from June 15, 1995 to July 15, 1995, a student would ordinarily be paid with the school's 1994-95 allocation through June 30 (the end of the 1994-95 award year), and with the school's 1995-96 allocation beginning July 1, 1995 (the beginning of the 1995-96 award year).



May "carry back" funds for summer

A school may carry back funds for summer employment and may expend in the previous award year any portion of its initial and supplemental FWS allocations for the current award year to pay student wages earned on or after May 15 of the previous award year but prior to the beginning of the current award year. For example, a school is authorized to "carry back" any portion of its funds allocated for the 1995-96 award year to pay FWS wages for summer employment between May 15, 1995 and June 30, 1995.

10% carry forward/ carry back funds to award year

In addition to the authority to carry back funds for summer wages, a school is also allowed to carry back up to 10 percent of the next year's FWS initial and supplemental allocation to the current award year for use at any time during the current award year, and to carry forward up to 10 percent of its FWS initial and supplemental allocation for the previous award year to the current award year.

If the school carries forward funds from the current award year to the following award year, the expenditures are charged to the allocation for

the current award year. If the school carries back funds from the next year to the current year, the expenditures are charged to the next award year.

Paying students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization. For audit and program review purposes, the school must have cancelled checks in its files to show that students received payment in the amount charged to the FWS Program.

The school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other, similar payrolls at the school.

PAYROLL RECORDS

Separate FWS payroll

For reporting and control purposes, FWS expenditures must be distinguishable from other institutional expenditures. FWS compensation should either be entered on a separate voucher or, if listed on the general payroll voucher, should be grouped separately from other expenditures. If payrolls are handled on automatic data processing equipment, a special code for FWS payments should be used.

Voucher contents

Payroll vouchers must support all payroll disbursements and should provide space for the following information:

- school's name and address;
- starting and ending dates of the payroll period;
- student's name;
- identification of the student's job;
- number of hours worked during the pay period;
- hourly rate of pay for undergraduate students;
- hourly rate of pay or salary for graduate students;
- gross earnings;
- compensation withheld for federal, state, county, or city taxes, and other deductions;
- noncash payments;
- net earnings;
- check number, duplicate receipt, or other payment identification; and
- overtime earnings (a student may be paid overtime with FWS funds).

SECTION FOUR: TYPES OF EMPLOYMENT

As stated earlier, FWS jobs may be on or off campus. Off-campus jobs must be in the public interest if the work is for a federal, state, or local public agency, or for a private nonprofit organization. However, a school may use part of its FWS allocation to provide jobs in private, for-profit organizations. All FWS jobs must, to the maximum extent practicable, complement and reinforce the student recipient's educational program or vocational goals.

COMMUNITY SERVICE JOBS

Schools are required to make students aware of community service opportunities by encouraging them to get involved in community service activities and are required to utilize money from their FWS Program for that purpose. There is no restriction as to whether these jobs must be on or off the campus. (A university or college is not considered a "community" for the purposes of the FWS Program community service requirements.) In determining whether the service is community service, the school must always consider whether the service provided by the FWS student primarily benefits the community as opposed to the agency or school.

"Dear Colleague" letter CB-94-4, March 1994

ED issued "Dear Colleague" letter CB-94-4 in March 1994, which discusses the major FWS Program changes for community service activities provided for in the Higher Education Act of 1965, as amended by the Higher Education Amendments of 1992 and the Higher Education Technical Amendments of 1993. The new provisions are included in Section 675.2 of the Final Rule published in the **Federal Register** on November 30, 1994, discussed below, and are effective October 1, 1992, except as noted.

For 1994-95 and subsequent award years, a school must use at least 5 percent of its FWS allocation to employ students in community service jobs unless the school receives a waiver from ED (see Section 675.18(h) of the Final Rule). A school may request in writing a waiver of this requirement. However, ED will approve a waiver only if it determines that the school has demonstrated that enforcing the requirement would cause a hardship for students at the school.

The participation agreement between the school and ED (discussed in the Introduction to Chapter Five) is amended in Section 675.8 of the Final Rule of November 30, 1994 for the FWS Program by adding the provisions that a school—

- must assure that employment under the program may be used to support programs providing supportive services to students with disabilities and
- must inform all eligible students of the opportunity to perform community services and consult with local nonprofit, governmental, and community-based organizations to identify those opportunities.

Definition of community services

The Final Rule defines community services in Section 675.2(b) as—

"Services which are identified by an institution of higher education through formal or informal consultation with local nonprofit, governmental, and community-based organizations, as designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. These services include:

(1) Such fields as health care, child care, literacy training, education (including tutorial services), welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention, and control, recreation, rural development, and community improvement;

(2) Work in service opportunities or youth corps as defined in section 101[*] of the National and Community Service Act of 1990, and service in the agencies, institutions and activities designated in section 124(a) [*] of that Act;

(3) Support to students (other than an institution's own students) with disabilities; and

(4) Activities in which a student serves as a mentor for such purposes as:

(i) Tutoring;

(ii) Supporting educational and recreational activities; and

(iii) Counseling, including career counseling."

* At the end of Section Four are definitions of the terms "service opportunity" and "youth corps program" as defined in section 101 of the National and Community Service Act of 1990. Also at the end of Section Four is a list of agencies, institutions, and activities included in section 124(a) of that Act.

Priority on community service to low-income individuals

In contacting potential community service agencies, schools should place a priority on jobs that will meet the human, educational, environmental, and public safety needs of low-income individuals. ED has determined that at this time there is no need to burden schools with a formal definition of "low-income individual" for purposes of providing community service under the FWS Program. There is no statutory requirement that a particular number or proportion of the individuals must be low-income persons. Some examples of jobs that provide services to persons in the community who may *not* necessarily be low-income individuals are jobs that provide support services to students with disabilities or prevent or control crime.

On-campus community service jobs

On-campus jobs can meet the definition of community services, provided that the services are open and accessible to the community and that they meet the regulatory and statutory provisions pertaining to the applicable FWS Program employment limitations and conditions. For example, it would be acceptable for an institution to set up services on the campus (e.g., tutoring centers or child care centers) that are open to the community. If the institution sets up sites in the community and opens the services for the community, jobs at these sites would be acceptable. A service is considered open to the community if the service is publicized to the community and members of the community use the service.

ESTABLISHING FWS COMMUNITY SERVICE JOBS

Developing community service jobs

In developing FWS community service jobs, a school might begin by—

- determining which types of jobs meet the community services definition;
- determining if any of its current on-campus jobs meet the community services definition;
- determining if any of its current jobs with off-campus agencies meet the community services definition; and
- locating other potential employers.

Placing FWS recipients in community service jobs

To place FWS recipients in community service jobs, a school might begin by—

- determining which FWS recipients would be interested in a community service job (evaluating the FWS recipients by looking at their degree or certificate programs, interests, and skills) and
- determining the number of community service jobs it needs to locate.

Public relations

To promote FWS community service jobs through public relations activities, schools might begin by—

- devising a plan to market community services under the FWS Program to eligible student employers and the community;
- obtaining a listing of potential community service agencies;
- asking to be a presenter at various organizations' meetings;
- engaging in networking activities;
- holding and attending job fairs;
- hosting a financial aid office "Open House;" and
- visiting local agencies.

Communication

A school may also get help in developing FWS community service jobs through communication with colleagues at their own school, at other schools, or with other organizations, for example by—

- communicating to the Student Placement Office the requirements of community services under the FWS Program;
- talking to colleagues at institutions that participated in the expired Community Service Learning Program to get ideas on implementing, locating, and developing the community service jobs; and
- contacting local nonprofit, governmental, and community-based organizations to assess their needs and determine what interest exists for employing FWS students.

WORK ON CAMPUS

Students may be employed on campus at any type of postsecondary institution, including a proprietary school. Jobs at all schools must, to the maximum extent practical, be related to the student's educational program or vocational goals.

Work for the school itself or the school's contractors

A school other than a proprietary school may employ a student to work for the school itself, *including* certain services the school may contract for: food service, cleaning, maintenance, or security. Work for the school's contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects

the students and determines their pay rates. A proprietary school also may employ a student to work for the school itself with certain restrictions (discussed below under "Work for Proprietary School, On or Off Campus").

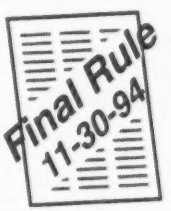
Work for a professor

At any *private nonprofit or public school*, FWS students may be assigned to assist a professor if they are doing work the school would normally support under its own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself. However, in a *proprietary school*, a student may not assist an instructor, as instructional activities are not considered student services (work for a proprietary school is discussed below).

Work in a branch campus overseas

Normally, employment in a foreign country is not permissible under the law. However, a school with a branch campus in a foreign country may employ students under FWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. Government facility such as an embassy or a military base. A student may not be employed for a nonprofit organization in a foreign country.

WORK FOR PROPRIETARY SCHOOL, ON OR OFF CAMPUS



A proprietary school may employ a student to work for the school itself but only in jobs that meet certain criteria (see "Dear Colleague" letter CB-94-4, issued in March 1994, and Section 675.21(b) of the November 30, 1994 Final Rule).

(1) If the jobs are in community service, they may be either on or off campus. Students employed by a proprietary school and performing community service do not have to furnish student services that are directly related to their education.

(2) If the jobs are *not* in community service, they must be on campus and must—

- provide "student services" (see the examples on the next page);
- complement the student's educational program or vocational goals to the maximum extent possible; and
- not involve soliciting potential students to enroll at the proprietary school.

The regulations published in the **Federal Register** on December 21, 1992 define "student services" in Section 675.2(b) as services that are offered

Definition of student services

to students that are directly related to the work-study student's training or education. For example, jobs that provide student services may include, but are not limited to, jobs in a financial aid office or library, peer guidance counseling, and jobs providing social and health services or tutorial services. However, work in the admissions or recruitment area of a school would not be acceptable, as this employment could involve soliciting potential students. Maintenance (cleaning dorms) would not be acceptable. In general, work that would primarily benefit the school rather than its students is not permissible. For example, a student could not work in the front reception area or in the business office of a school, as those jobs would not provide student services. As stated earlier, a student may not assist an instructor, as instructional activities are not considered student services.

WORK OFF CAMPUS FOR NONPROFIT OR GOVERNMENT AGENCY

Work must be in the public interest

If a student is employed off campus by a federal, state, or local public agency, or by a private nonprofit organization, providing jobs related to the student's academic or vocational goals is encouraged, but not required. However, the work performed *must be in the public interest.* Work in the public interest is performed for the national or community welfare, rather than for a particular interest or group.

Local public agencies

Local public agencies include city or county governmental offices, public schools, community-owned hospitals, public libraries, and community centers.

Private nonprofit organizations

A private nonprofit organization is one in which no part of the net earnings of an agency may benefit any private shareholder or individual. An organization must be incorporated as nonprofit under federal or state law. A school classified as a tax-exempt organization by either the federal or state Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, day care centers, halfway houses, crisis centers, and summer camps.

Nonprofit agencies do not all qualify automatically as community service employers for purposes of the FWS Program, because the work performed must meet the definition of community services in Section 675.2(b) of the November 30, 1994 Final Rule (see page 7-18). A list of programs or activities that are recognized as appropriate work in community services under the FWS Program is included at the end of this section. In addition, work off campus for a nonprofit agency must be in the public interest.

Work not in the public interest

Work is not "in the public interest" if—

- it primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;
- it involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- it is work for an elected official unless the official is responsible for the *regular* administration of federal, state, or local government;
- it is work as a political aide for any elected official;
- a student's political support or party affiliation is taken into account in hiring him or her; or
- it involves lobbying on the federal, state, or local level.

Nature of work considered

However, in deciding whether work is in the public interest, schools must consider the nature of the work as well as the organization. For example, a student may be employed by a private nonprofit civic club if the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, FWS employment is not in the public interest.

Political activity—partisan or nonpartisan

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, students could not work at voting polls—even if they only checked off the names of those who came to vote and did not pass out flyers supporting a particular candidate. Also, students could not work to support an independent candidate. Another example of nonpartisan political activity would be work for a city that might be sponsoring political debates.

Political aide

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Work for elected official

Under certain circumstances, work for an elected official responsible for the *regular administration* of federal, state, or local government may be considered to be in the public interest. "Regular administration" means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs, but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (he or she has direct responsibility for the judicial system). As stated above, any *political* activity would not be acceptable—raising funds for the official's reelection, for example. An FWS position that involves lobbying at the federal, state, or local level is not work in the public interest.

Work for ED

FWS students are prohibited from working for the U.S. Department of Education due to the potential appearance of conflict of interest.

WORK OFF CAMPUS FOR PRIVATE FOR-PROFIT COMPANIES

Job must be academically relevant

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant to the student's program of study. (A student studying for a Business Administration degree could work in a bank handling customer transactions, for example.) Private for-profit organizations do not qualify as employers for community service under the FWS Program.

Up to 25% of FWS allocation

A school may use up to 25 percent of its FWS allocation and reallocation for an award year to pay the wages of FWS students employed by private for-profit organizations, but the organizations may not hire FWS employees to replace regular employees.

For-profit organization pays 50% of wages

The federal share of FWS wages for students employed by private for-profit organizations is limited to 50 percent. The for-profit organization must contribute the remaining 50 percent, plus employer taxes (such as FICA, unemployment, and Workers' Compensation).

OFF-CAMPUS AGREEMENTS

Professional direction and staff

When a school enters into a written agreement—a contract—with any off-campus agency or company that employs FWS students, the school must make sure the organization is a reliable agency with professional direction and staff, and that the work to be performed is adequately supervised and consistent with the purpose of the FWS Program. (See Appendix B of the December 1, 1987 campus-based regulations for a model off-campus agreement. The sample need not be followed exactly but serves as a guide.)

Who is employer?

The agreement sets forth the FWS work conditions and establishes whether the school or the agency/company will be the employer for such purposes as hiring and firing, or paying the non-federal share of the student's wages or the student's Social Security or Workers' Compensation benefits. The employer is generally considered to be the organization that will control the work of the FWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure payment for work performed is properly documented, and that each student's work is properly supervised.

Liability for on-the-job injuries

The agreement must also state which organization—the school or off-campus employer— will be responsible for any injuries the student receives on the job. The *employer* is *not* automatically liable. Federal FWS funds cannot be used to pay an injured student's hospital expenses.

Payroll responsibility

The agreement should also define whether the agency/company will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the agency/company for its contribution. The school must make up any payments the agency/company does not make. It is the school's responsibility to ensure that FWS payments are properly documented, even if the agency/company does the payroll. To fulfill that responsibility, the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually a copy of the cancelled check or a receipt signed by the student).

Supervising and evaluating off-campus employment

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school can also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school is responsible for supplying this information.

FWS EMPLOYMENT DURING PERIOD OF NONENROLLMENT

Student must enroll or reenroll for next regular session

A student may be employed under FWS during a period of non-enrollment, such as a summer or equivalent vacation period or the full-time work period of a cooperative education program. To be eligible for this employment, a student must be planning to enroll (or to reenroll) for the next regular session. The student's earnings during this period of nonenrollment (earnings minus taxes and job-related costs) must be used to pay his or her cost of attendance for the next period of enrollment.

Documenting student's intent to reenroll

A student whose eligibility for summer FWS employment was based on anticipated enrollment in the subsequent term may fail to register or may decide to attend another school. When a student fails to register for the subsequent term, the school that employed the student must be able to demonstrate that the student was eligible for employment and that the school had reason to believe the student intended to study at that school in the next term. At a minimum, the school that employed the student must keep a written record in its files showing that the student had accepted the school's offer of admittance in the upcoming session.

Study abroad

Students in an eligible program of study abroad may be employed during the summer preceding their study abroad if they will be continuously enrolled in their American school while abroad, and if their study is part of the American school's own program. In such cases, students may be employed in qualified positions in the U.S., at the American school's branch campus located in a foreign country, at a U.S. Government facility abroad, or in an American company abroad.

TERMS USED IN THE DEFINITION OF COMMUNITY SERVICES

The definition of community services (see page 7-18) includes the terms "service opportunity" and "youth corps program." Section 101 of the National and Community Service Act of 1990 defines the terms as follows:

- *Service opportunity* - "a program or project, including service learning programs or projects, that enables students or out-of-school youth to perform meaningful and constructive service in agencies, institutions, and situations where the application of human talent and dedication may help to meet human, educational, linguistic, and environmental community needs, especially those relating to poverty."

- *Youth corps program* - "a program, such as a conservation corps or youth service program, that offers full-time, productive work (to be financed through stipends) with visible community benefits in a natural resource or human service setting and that

gives participants a mix of work experience, basic and life skills, education, training, and support services."

LIST OF AGENCIES, INSTITUTIONS, AND ACTIVITIES INCLUDED IN THE DEFINITION OF COMMUNITY SERVICES

The definition of "community services" includes "service in agencies, institutions, and activities that are designated in section 124(a) of the National and Community Service Act of 1990," which include the following:

1. Conservation corps programs that focus on—
    - conservation, rehabilitation, and the improvement of wildlife habitat, rangelands, parks, and recreation areas;
    - urban and rural revitalization, historical and site preservation, and reforestation of both urban and rural areas;
    - fish culture, wildlife habitat maintenance and improvement, and other fishery assistance;
    - road and trail maintenance and improvement;
    - erosion, flood, drought, and storm damage assistance and controls;
    - stream, lake, waterfront harbor, and port improvement;
    - wetlands protection and pollution control;
    - insect, disease, rodent, and fire prevention and control;
    - the improvement of abandoned railroad beds and rights-of-way;
    - energy conservation projects, renewable resource enhancement, and recovery of biomass;
    - reclamation and improvement of strip-mined land;
    - forestry, nursery, and cultural operations; and
    - making public facilities accessible to individuals with disabilities.
2. Human services corps programs that include participant service in—
    - state, local, and regional governmental agencies;
    - nursing homes, hospices, senior centers, hospitals, local libraries, parks, recreational facilities, child and adult day care centers, programs serving individuals with disabilities, and schools;

- law enforcement agencies, and penal and probation systems;
- private nonprofit organizations that primarily focus on social service such as community action agencies;
- activities that focus on the rehabilitation or improvement of public facilities, neighborhood improvements, literacy training that benefits educationally disadvantaged individuals, weatherization of and basic repairs to low-income housing including housing occupied by older adults, energy conservation (including solar energy techniques), removal of architectural barriers to access by individuals with disabilities to public facilities, activities that focus on drug and alcohol abuse education, prevention and treatment, and conservation, maintenance, or restoration of natural resources on publicly held lands; and
- any other nonpartisan civic activities and services that the Commission determines to be of a substantial social benefit in meeting unmet human, educational, or environmental needs (particularly needs related to poverty) or in the community where volunteer service is to be performed; or

3. Programs that encompass the focuses and services described in both paragraphs (1) and (2).

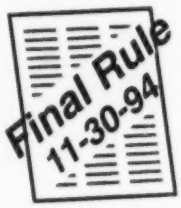
SECTION FIVE: FWS PROGRAM FUNDS

The Higher Education Act of 1965, as amended, describes the allocation process in detail; those procedures are not repeated in the regulations for the FWS Program. Funds are allocated directly to schools according to the statutory formulas. Schools receive their disbursements in periodic installments, either in advance or as reimbursements. ED *reallocates* funds to a school in a manner that best carries out the purposes of the FWS Program.

All federal funds a school receives as part of its FWS allocation must be held in trust for the students who are the intended beneficiaries under the FWS Program, with the exception of funds the school receives for the administrative cost allowance and for certain activities under the Job Location and Development Program (see Section Six). The funds may not be used for, or serve as collateral for, any other purpose.

Transfer of funds to FSEOG

A school may transfer up to 25 percent of its FWS allocation (as well as 25 percent of its Federal Perkins federal capital contribution allocation) *to* the FSEOG Program. The FSEOG regulations prohibit the transfer of funds *from* the FSEOG Program to any other program. However, a school that transfers funds from the FWS Program *to* the FSEOG Program during an award year must transfer any unexpended FWS funds *back* to the FWS Program at the end of the award year (this provision is in Section 676.18 of the Final Rule published in the **Federal Register** on November 30, 1994).



If a school returns more than 10 percent of its FWS allocation for an award year, the school's allocation for the second succeeding award year will be reduced by the dollar amount returned, unless this provision is waived by ED. As provided in Section 675.4(e) of the November 30 Final Rule, ED may waive this provision for a specific school if it finds that enforcement would be contrary to the interests of the program. ED considers enforcement to be contrary to the interest of the program only if the school returned more than 10 percent of its allocation due to circumstances that are beyond the school's control and are not expected to recur.

Under the provisions of the Higher Education Amendments of 1992, unexpended funds returned to ED will be reallocated to eligible schools

that used at least 10 percent of their total FWS allocation to pay students employed in community-services activities. (A school must have a fair-share shortfall to receive these funds—refer to "Dear Colleague" letter CB-94-4, March 1994.) Schools must use the reallocated funds only to pay students in community service jobs.

Use 5% of funds for students in community service jobs

Beginning with the *1994-95 award year*, a school must use at least 5 percent of its FWS initial and supplemental allocations for an award year to pay the federal share of wages to students employed in community service jobs unless ED approves a waiver. The school may request in writing a waiver of this requirement. However, ED will approve a waiver only if it determines that the school has demonstrated that enforcing the requirement would cause a hardship for the students at the school. (Refer to Section 675.18(h) of the November 30, 1994 Final Rule and to "Dear Colleague" letter CB-94-4, March 1994.)

FWS funds for less-than-full-time or independent students

If a school's FWS allocation is based in part on the financial need of less-than-full-time or independent students and if the need of all of these students exceeds 5 percent of the total need of all students at the school, the school must *offer* those students at least 5 percent of its FWS allocation (this provision is in Section 675.10 of the Final Rule and is discussed in Chapter Five, Section One).

Section 675.18(a) of the Final Rule provides that an approved school may use part of its FWS allocation for the purpose of meeting the costs of the new Work-Colleges Program discussed in the Introduction to this chapter.

FEDERAL SHARE LIMITATION

Federal share generally limited to 75%

Section 675.26(a) of the November 30 Final Rule provides that, for the 1993-94 and subsequent award years, the federal share of FWS wages paid to students may not exceed 75 percent, with the following exceptions:

Exceptions

- the federal share of FWS wages to students employed by a *private for-profit* organization may not exceed 50 percent; and
- ED may authorize a federal share of 100 percent of FWS wages at schools designated as eligible schools under the Strengthening Institutions program, the Strengthening Historically Black Colleges and Universities program, or the Strengthening Historically Black Graduate Institutions programs. The school must request the increased federal share for an award year on the FISAP for that year, and the work performed by the student must be for the school itself, for a federal state or local public agency, or for a private nonprofit organization.

School may contribute more than minimum share

The federal share may be lower than 75 percent, if the school chooses to contribute more than the minimum required non-federal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25 percent to allow for additional employment.

The federal share may *not* be used to provide fringe benefits such as sick leave, vacation pay, and holiday pay, or employer's contributions to Social Security, Workers' Compensation, retirement, or any other welfare or insurance program.

The federal share limitation does not affect federal agencies that want to enter into an off-campus FWS job agreement. They may provide the required share of student compensation normally paid by off-campus agencies, plus any other employer costs that they agree to pay.

The Federal share of allowable costs in carrying out the Job Location and Development Program may not exceed 80 percent of such costs (refer to Section Six of this chapter).

NON-FEDERAL SHARE

Non-federal share is at least 25%

The non-federal share of FWS wages must be at least 25 percent* for 1993-94 and subsequent award years, except that—

- the non-federal share of FWS wages must be at least 50 percent in the case of work for *private for-profit* organizations; the 50 percent non-federal share is not subject to waiver and
- if a school is designated as an eligible institution under the Strengthening Institutions Program or the Strengthening Historically Black Colleges and Universities Program, ED may grant a waiver of the institutional-share requirement under the FWS Program if requested by the designated institution.

Waiver of institutional share

If ED grants the waiver, the school has the *option* of providing an institutional-share and determining the amount of the share. However, the school must provide the proper federal and institutional shares for any portion of its FWS allocation that it expends under the provisions governing student employment provided by a private for-profit organization (50 percent federal-share limitation) or for the administration of the Job Location and Development Program (80 percent Federal-share limitation).

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* If a student works in a community service job for a *private nonprofit* organization, the 25 percent non-federal share may be paid by the private nonprofit organization, or part may be paid by the organization and part by the school.

The institutional-share requirement for these two categories of FWS expenditures may not be waived.

Source of school share

A school may use any resource available to pay its share of FWS compensation except federal funds allocated under the FWS Program. The school's share may come from its own funds, from outside funds (such as from an off-campus agency), or from both.

Noncash institutional share

The school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. If the school's share for the award period is paid by noncash contributions, the share must be paid before the end of the student's final payroll period. The school must document all amounts claimed as noncash contributions. If a school has assessed a charge against a student who is employed under FWS (such as a parking fine or library fine), the school may not include forgiveness of such a charge as part of the school's noncash contribution for the student.

Costs off-campus agency pays

Any FWS employment agreement a school may have with an off-campus agency should specify what share of student compensation and what other costs the agency will pay. The agreement between the school and a for-profit organization *must* require the employer to pay the non-federal share of student earnings. The agreement between the school and an employing agency or nonprofit organization *may* require the employer to pay—

- the non-federal share of student earnings;
- required employer costs, such as the employer's share of Social Security or Workers' Compensation; and
- the school's administrative costs not already paid from its administrative cost allowance.

Excess funds from off-campus agency

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school's non-federal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

- use it to reduce the federal share on a dollar-for-dollar basis;
- hold it in trust for off-campus employment the next award year; or
- refund it to the off-campus employer.

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the non-federal share, as long as the programs have the authority to pay student wages. Schools should contact the federal agency to see if it does have this authority.

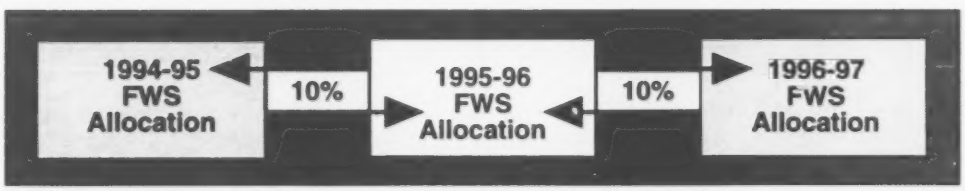
As discussed at the beginning of this Section, with two exceptions, the federal share of FWS wages cannot exceed 75 percent. If the school's non-cash contribution is less than the remaining 25 percent, the school must make up the difference in cash.

CARRY FORWARD/CARRY BACK

A school may spend up to 10 percent of its current year's FWS allocation (initial and supplemental) in the *following* award year (carry forward). If the school intends to do this, it must indicate it on the FISAP. For example, if a school intends to carry forward 10 percent of its FWS 1994-95 allocation to 1995-96, the school must report it in the October 1995 FISAP, in Part V of the Fiscal Operations Report for 1994-95.

A school is also permitted to spend up to 10 percent of its current year's FWS allocation (initial and supplemental) for expenses incurred in the *previous* award year. The official allocation letter for a specific award period is the school's authority to exercise this option. Note that, before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.

As stated in Section Four of this chapter, a school is authorized to make payments to students for services performed after the academic year but prior to the beginning of the succeeding award year (i.e., for summer employment) from the succeeding award year's allocation. This carry-back authority is in addition to the previous authority to carry back 10 percent of the succeeding year's allocation for use at any time during the preceding award year.



LIMITATIONS ON USE OF FUNDS CARRIED FORWARD OR BACK

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percent of available funds that may be used in that award year for any of the purposes listed below:

- transfer of FWS funds to FSEOG;
- federal share of wages in private for-profit sector jobs; or
- Job Location and Development Program.

Therefore, for the 1995-96 award year, schools may not add to the 1995-96 total FWS allocation any FWS funds carried forward into 1995-96 from 1994-95, or carried back into 1995-96 from 1996-97 when determining the maximum percent of available funds that may be used in 1995-96 for the purposes listed above. The maximum amount usable for each of the three purposes listed above is the appropriate percentage of a school's total 1995-96 original FWS allocation plus any supplemental 1995-96 FWS allocation.

TRANSFER OF FUNDS TO THE FSEOG PROGRAM

25% maximum to FSEOG

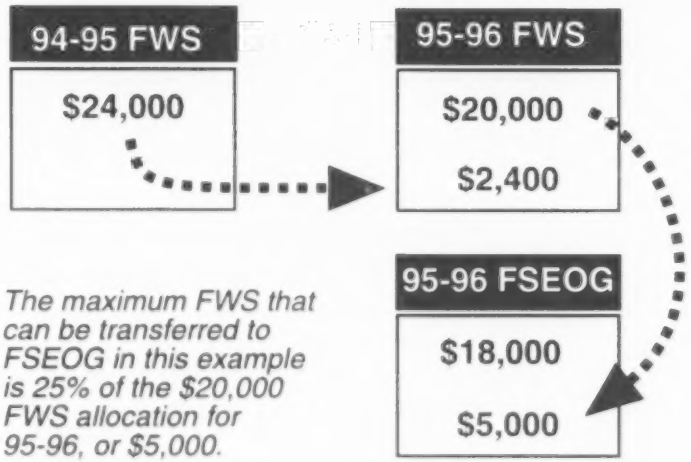
For 1993-94 and subsequent award years, a school may transfer up to 25 percent of its total FWS allocation (initial and supplemental) to the FSEOG Program. ED's permission is not required. Note that this total FWS allocation for an award year does not include FWS funds carried forward or carried back into the award year from other award years (see the example on the next page). The school must report any transfer of FWS funds to FSEOG as an expenditure on its FWS Fiscal Operations Report. However, under Section 676.18(c) of the November 30,1994 Final Rule for the FSEOG Program, a school that transfers funds to the FSEOG Program from the FWS Program during an award year must transfer any unexpended FWS funds *back* to the FWS Program at the end of the award year (refer to Section Five of this chapter).

ADMINISTRATIVE COST ALLOWANCE

As discussed in Chapter Five, Section Three, a school participating in the FWS program is entitled to an administrative cost allowance if it provides FWS employment to its student in that award year. The allowance may be used to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The formula a school uses to calculate its total administrative cost allowance for the campus-based programs is on page 5-20.

EXAMPLE:

Oasis Junior College has received a total (initial and supplemental) FWS allocation of $24,000 for the 1994-95 award year, and $20,000 for the 95-96 award year. The financial aid administrator has carried forward $2,400 of the 94-95 FWS allocation into the 95-96 award year, and now would like to transfer 25% of her 95-96 FWS allocation into the 95-96 FSEOG account. What is the maximum amount that can be transferred?



The maximum FWS that can be transferred to FSEOG in this example is 25% of the $20,000 FWS allocation for 95-96, or $5,000.

A school may use up to 10 percent of the administrative cost allowance attributable to the school's FWS Program expenditures to pay administrative costs of conducting its community service program (see Section 675.18(b)(5) of the Final Rule). These costs may include the costs of—

- developing mechanisms to assure the academic quality of a student's experience;
- assuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990, in the planning, development, and administration of these programs.

SECTION SIX: JOB LOCATION AND DEVELOPMENT

PROGRAM PURPOSE

The purpose of the Job Location and Development (JLD) Program is to expand off-campus job opportunities for students who are enrolled in eligible institutions of higher education and want jobs *regardless of their financial need* (unlike regular FWS jobs) and to encourage students to participate in community service activities (see Section 675.31 of the November 30, 1994 Final Rule). Students employed in jobs developed by the JLD Program must be currently enrolled, but, as no federal funds are used to pay their wages, they are *not* required to meet the other standard FWS student eligibility criteria.

Financial need not a requirement for JLD jobs

JLD community service jobs are designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to the needs of community residents. "Community services" are those the school has identified by working with local nonprofit, governmental, and community-based organizations. Appropriate jobs are those in fields such as health care, child care, literacy training, education (including tutorial services), housing and neighborhood improvement, rural development, community improvement, and providing supportive services to students with disabilities. Schools must inform all eligible students of the opportunity to perform community services and must develop and make available information about community-services opportunities.

JLD community service jobs

USE OF FWS ALLOCATION FOR JLD PROGRAM

A school may use up to 10 percent of its FWS allocation and reallocation—or a maximum of $50,000, whichever is less—to establish or expand a program to locate and develop off-campus jobs, *including community service jobs*. Jobs located or developed under the program may be for either a profit or nonprofit employer.

May use the lesser of 10% of FWS allocation or $50,000

USE OF JLD PROGRAM FUNDS

Funds are used only to locate or develop jobs

Off-campus employer pays student

The off-campus employer, rather than the school, pays a student whose job was located or developed through the JLD program. Federal JLD funds are used to pay the school's costs of establishing and administering the JLD programs; the funds are *not* used to pay students whose jobs were located or developed through the programs. A school is required, however, to keep a record of total earnings of students employed in these jobs in order to comply with the school's Participation Agreement with ED, which states that total wages of students (for whom jobs were located or developed) are expected to exceed the amount of federal funds spent on the JLD program (the school reports in Part V, Section G, of the FISAP the federal funds used for JLD and the total earnings of students for whom jobs were located or developed).

Federal share—up to 80 %

Institutional share—at least 20%

The federal funds that a school sets aside from its FWS allocation to be used for JLD activities may be used to pay up to 80 percent of the allowable costs (listed below). The school must provide the remaining 20 percent of allowable costs, either in cash or in services. This requirement, unlike the institutional share requirement for FWS earnings, cannot be waived. The school must maintain records that indicate the amount and sources of its matching share. Procedures and records requirements for JLD are the same as those for all campus-based programs (see Chapter Five, Section Three).

When the school signs its JLD Participation Agreement with ED, the school must agree that it will not use its JLD allocation to locate or develop jobs at its own school or other eligible schools.

ALLOWABLE PROGRAM COSTS

Allowable costs of carrying out the JLD Program include—

- staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the FWS Program);
- travel expenses related to JLD activities;
- printing and mailing costs for brochures about the JLD Program;
- JLD telephone charges, including installation of a separate line for off-campus employers;
- JLD costs for supplies, equipment, and furniture;

- newspaper or other types of advertising that inform potential employers of the services JLD offers; and

- JLD workshops for students and employers.

Costs not allowed

Costs that are not allowable are costs related to purchasing, constructing, or altering the facilities that house a JLD project. Indirect administrative costs also are not allowable. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the Program—the JLD Director's supervisor, for example.

MULTI-INSTITUTIONAL JLD PROGRAMS

Agreement with other eligible schools

A school that is participating in FWS may enter into a written agreement with other eligible schools to establish and operate a JLD Program for its students. The agreement must designate the administrator of the program and must specify the terms, conditions, and performance standards of the program. Each school that is part of the agreement retains responsibility for properly disbursing and accounting for the federal funds it contributes under the agreement (see Section 675.34 of the final Rule).

The Participation Agreement requires the school to provide satisfactory assurances that, if the school uses federal funds to contract with another school, suitable performance standards will be part of that contract.

PROGRAM PARTICIPATION AGREEMENT

A school that wants to participate in the JLD Program checks the appropriate box or boxes on its Program Participation Agreement when it first applies for FWS funds. If a school does not decide until later that it wants to participate, it should send a request to:

U.S. Department of Education
Institutional Participation Division (IPD)
Financial Analysis Branch
600 Independence Avenue, S.W.
Room 3522, ROB-3
Washington, D.C. 20202

The school will receive a photocopy of its original Program Participation Agreement, initialed by a member of the IPD staff, authorizing the school's participation.

The Program Participation Agreement must provide that—

- the school will administer the programs in accordance with the Higher Education Act of 1965, as amended, and current JLD regulations;
- the school will submit to ED an annual report on the use of JLD funds and an evaluation of the Program's effectiveness (this requirement is satisfied simply by reporting wages earned under Section G of the FWS Electronic Fiscal Operations Report);
- the school will provide satisfactory assurances that it will not use its JLD allocation to locate or develop jobs at its own school or other eligible schools;
- the school will not develop jobs on campus under the JLD Program;
- the Program will be used for jobs while students are in school and between periods of enrollment, but not for job placement upon graduation;
- the Program will not displace employees or impair existing service contracts;
- the school expects total student wages to exceed the amount of federal funds spent on the Program; and
- if the school uses federal funds to contract with another school to administer the Program, suitable performance standards will be part of that contract.

Termination and suspension

If ED terminates or suspends a school's eligibility to participate in the FWS Program, that action also applies to a JLD Program. Additional information about termination and suspension is included in CFR Part 675, Subpart B, Section 675.37.

The Federal Student Financial Aid Handbook 1995-96

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INTRODUCTION

PROGRAM PURPOSE

Purpose—for needy undergraduates

The purpose of the Federal Supplemental Educational Opportunity Grant (FSEOG) Program is to provide grants to undergraduate students "with exceptional need" to help pay for their postsecondary education. This provision is in Section 413C(c)(2) of the Higher Education Act of 1965, as amended. When selecting FSEOG recipients, schools are required to use the selection criteria discussed in Section One of this chapter, giving priority to applicants with exceptional financial need.

NEW REGULATORY PROVISIONS

The Final Rule published on November 30, 1994 includes several new provisions, effective July 1, 1995, that amend the FSEOG regulations and implement provisions of the Higher Education Amendments of 1992.

- ED reallocates funds to schools in a manner that best carries out the purposes of the FSEOG Program (this provision is in Section 676.4 of the Final Rule published in the **Federal Register** on November 30, 1994).

Penalty for returning over 10% of funds

- If a school returns more than 10 percent of its FSEOG allocation for an award year, ED will reduce the institution's allocation for the second succeeding award year by the dollar amount returned (this provision is in Section 676.4(f) of the Final Rule and is discussed in the Introduction to Chapter Five).

Payment to a student who drops out

- Under certain conditions, a student who drops out before receiving his or her FSEOG can receive a payment (refer to Section 676.16(f) of the Final Rule). The conditions for making such a late payment are discussed in Section Two of this chapter.

- If a school's FSEOG allocation is directly or indirectly based in part on the financial need of less-than-full-time or independent students and if the need of all of these students exceeds

Less-than-full-time and independent students

5 percent of the total need of all students at the school, the school must *offer* those students at least 5 percent of its FSEOG allocation (see Section 676.10(b) of the Final Rule and Chapter Five, Section One).

Definition of overpayment

- If a student receives total resources that exceed the student's financial need for campus-based aid by *more than $300*, the amount over $300 is an overpayment. The overaward provisions are in Section 676.14 of the Final Rule and are discussed in Chapter Five, Section Three.

Transfer of funds

- The transfer of FSEOG Program funds to any other program has been prohibited since the beginning of the 1993-94 award year. However, under a provision of the November 30 Final Rule, a school that transfers funds to the FSEOG Program from the FWS Program during an award year must transfer any unexpended FWS funds *back* to the FWS Program at the end of the award year (refer to Section 676.18(c) of the Final Rule and Section Three of this chapter).

The General Provisions Final Rule published in the **Federal Register** on December 1, 1994, effective July 1, 1995, provides that the earliest a school may *pay directly or credit the account* of an enrolled student is *10 days* before the first day of a payment period or period of enrollment; this provision is included in Section 668.165(c). A school may no longer credit the account of an enrolled student up to 3 weeks before the first day of classes. In addition, the Final Rule provides that a school may choose to pay a student by electronic funds transfer (EFT) to the bank account designated by the student or parent, as applicable; however, the school must obtain an authorization from the student or parent to disburse by EFT.

SECTION ONE: SELECTING ELIGIBLE RECIPIENTS

GENERAL FSEOG ELIGIBILITY REQUIREMENTS

To receive an FSEOG, a student must meet the applicable eligibility requirements listed in Chapter Two, Section One: Student Eligibility. In addition, an eligible recipient must be an undergraduate student and must have financial need.

FSEOG undergraduate student definition

An undergraduate student is defined under the FSEOG Program as a student enrolled in an undergraduate course of study at an institution of higher education who—

- has not earned a bachelor's degree or first professional degree; and
- is in an undergraduate course of study that usually does not exceed 4 academic years, or is enrolled in a 4 to 5 academic year program designed to lead to a first degree. A student enrolled in a program of any other length is considered an undergraduate student for only the first 4 academic years of that program.

No FSEOG for *additional* undergraduate degree

Persons who have earned a bachelor's or first professional degree are *not* eligible to receive an FSEOG to pursue an *additional* undergraduate degree,[1] based on the above definition of undergraduate student, which is found in Section 676.2 of the FSEOG regulations.

Make FSEOGs reasonably available

A school must make FSEOG funds reasonably available (to the extent of available funds) to all eligible students. This requirement is contained in Article VI of the Program Participation Agreement between ED and the school.

[1]Note that the definition of undergraduate student in the FSEOG regulations differs from the definition in the Federal Perkins Loan and FWS program regulations (see Sections 674.2 and 675.2 of the Final Rule published November 30, 1994). The definition of undergraduate student in the Federal Perkins Loan and FWS program regulations does permit persons with a bachelor's or first professional degree to receive aid from those programs to pursue an additional undergraduate degree.

PRIORITY ORDER FOR FSEOG AWARDS

First, award those with lowest EFCs who are eligible for Pell Grants

In determining the priority order in which students will be awarded FSEOG funds in any given award year, a school must first, choose those students with exceptional financial need—that is, those with the lowest EFCs who will also receive Federal Pell Grants in that award year. We will refer to this group of students as the "first selection group."

Next, award to others with lowest EFCs

If the school has FSEOG funds remaining after awarding FSEOG funds to all of its eligible Federal Pell Grant recipients in order of lowest EFCs, the school must next award FSEOG funds to those eligible students with the lowest EFCs who will not receive Federal Pell Grants in that award year. We will refer to this group of students as the "second selection group."

FEDERAL PELL GRANT ELIGIBILITY

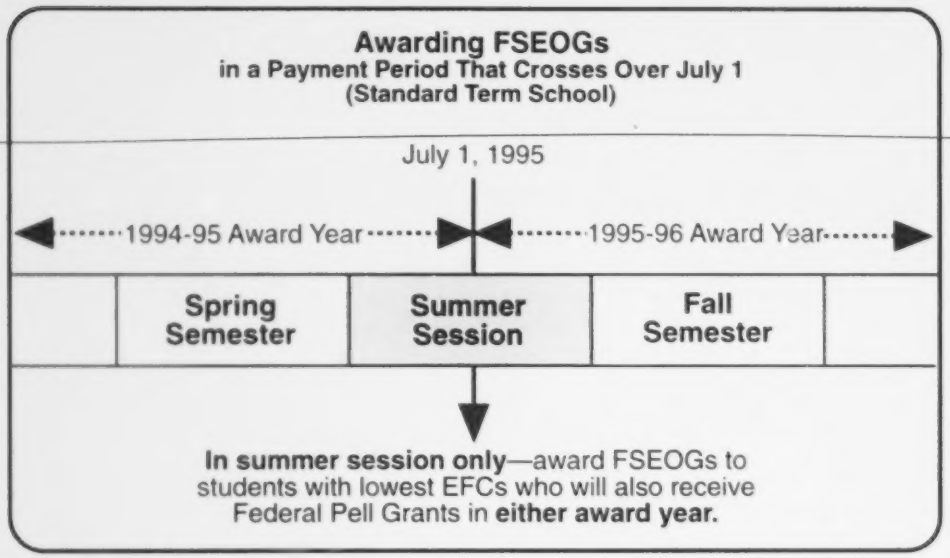
Students who "will also receive a Federal Pell Grant in that award year" means students who have demonstrated Federal Pell Grant eligibility for the same award year based upon—

- a SAR submitted to the school by the student;
- an electronic SAR received by the school from the central processing system; or
- a manual calculation.

The school must keep the appropriate Federal Pell Grant eligibility information on file. If the school determines a student's Federal Pell Grant eligibility by one of the above methods and awards an FSEOG based on that determination, but the FSEOG recipient does not actually receive a Federal Pell Grant during the award year, the school is not required to recover the FSEOG funds, as it relied on the demonstrated eligibility in good faith.

If payment period crosses July 1

In awarding FSEOGs to students who are enrolled in a payment period that crosses over July 1 of any year, the school may (*for that payment period only*) include in the first selection group those students with the lowest EFCs who will also receive Federal Pell Grants in that *payment period*, regardless of the award year to which it is attributed. (Refer to "Dear Colleague" letter CB-91-8, distributed in May 1991.) "Payment period" is defined as a semester, trimester, or quarter; for a school not using those academic periods, it is the period between the beginning and the midpoint or between the midpoint and the end of an academic year.


Awarding FSEOGs
in a Payment Period That Crosses Over July 1
(Standard Term School)
July 1, 1995
1994-95 Award Year
1995-96 Award Year
Spring Semester
Summer Session
Fall Semester
In summer session only—award FSEOGs to students with lowest EFCs who will also receive Federal Pell Grants in either award year.

LESS-THAN-FULL-TIME AND INDEPENDENT STUDENTS

Final Rule 11-30-94

A school must offer at least 5 percent of its FSEOG allocation to less-than-full-time and independent students if the school's FSEOG Program allocation is directly or indirectly based in part on the financial need of these students and if the financial need of all such students exceeds 5 percent of the total financial need of all students at the school (this provision is in Section 676.10(b) of the November 30, 1994 Final Rule). Additional information is in Chapter Five, Section One. Determination of whether a school must offer at least 5 percent of its 1995-96 allocation to these students is based on eligible aid applicant data filed for the 1993-94 award year. For subsequent award year allocations, determinations will be governed by data filed for the second preceding award year. This provision is not applicable for FSEOG if the school received an FSEOG allocation of $5,000 or less.

A school cannot exclude less than half-time students from its definition of less than full-time students.

MAKING FSEOGs AVAILABLE THROUGHOUT THE YEAR

Written selection procedures

A school must develop written selection procedures to ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year in accordance with the selection provisions found in Section 676.10 of the regulations. For an institution that enrolls students as often as monthly or weekly, FSEOG funds can be reserved for use throughout that award year (on the basis of institutional experiences from previous periods) and selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year.

ESTABLISHING CATEGORIES OF STUDENTS

Categorization may not be used to exclude students

The procedure of establishing categories of students to be considered for FSEOG awards is within the institution's purview as a means of administering its packaging policies. Categories may be based on class standing, enrollment, program, date of application, or a combination of factors. By establishing these categories, the school would be attempting to ensure that the students in each category have an opportunity to be awarded FSEOG funds. The percentage or dollar amount of funds assigned to each category is also within the school's purview; there is no requirement to make that amount proportional to the need of students in a particular category or even to the number of students in the category.

However, categorization may not be used to exclude certain students or groups of students from consideration. If the school knows that its funds are so limited as to effectively exclude from consideration year after year categories that come later in the sequence, the school may not be in compliance with the "reasonably available" provision. (This principal would not apply to a category made up of students whose applications are received after a specific deadline; there is no requirement to reserve funds for late applicants, although the school is not precluded from doing so.)

EFC cutoffs or professional judgment not appropriate for selecting FSEOG recipients

A school would not be in compliance with the Higher Education Act of 1965, as amended, and the FSEOG regulations were it to award FSEOGs on a first-come, first-serve basis or arbitrarily to set expected EFC benchmarks (cutoffs) from below which it would select FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process. Furthermore, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to an expected EFC or to a cost of attendance amount, not as a means to circumvent the FSEOG selection policy.

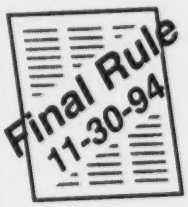
SECTION TWO: PAYMENTS TO STUDENTS

MINIMUM AND MAXIMUM AWARD

Awards—$100 to $4,000

FSEOG for study abroad

A school may award an FSEOG in an amount the school determines a student needs to continue his or her studies for an academic year. A student's minimum allowable award for an academic year may be reduced proportionately if the student is enrolled less than an academic year. An FSEOG may not be less than $100 and may not exceed $4,000 for a full academic year unless the student has reasonable costs of study abroad that exceed the cost of attendance at the home school. The maximum amount of the FSEOG may be increased from $4,000 to as much as $4,400 for a student participating in a program of study abroad that is approved for credit by the home school (this provision is included in Section 676.20(c) of the November 30, 1994 Final Rule).



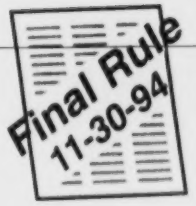
DISBURSEMENT

Method of payment

A school must notify a student of the amount he or she can expect to receive, as well as how and when that amount will be paid. A school may disburse an FSEOG directly to a student by check or may credit the student's account. In addition, under a provision of the General Provisions Final Rule published in the **Federal Register** on December 1, 1994, effective July 1, 1995, a school may choose to pay a student by electronic funds transfer (EFT) to the bank account designated by the student or parent, as applicable; however, the school must first obtain an authorization from the student or parent to disburse by EFT. A school may not require a student to sign a power of attorney as a prerequisite to receiving his or her FSEOG.

The school may not disburse funds for a payment period until the student registers for that period. (Correspondence students must submit their first completed lessons before receiving funds.) As stated earlier, the General Provisions Final Rule published on December 1, 1994, effective July 1, 1995, provides that the earliest a school may *pay directly or credit the account* of an enrolled student is *10 days* before the first day of a payment period or period of enrollment. A school may no longer credit the account of an enrolled student up to 3 weeks before the first day of classes.

If a student withdraws (officially or unofficially) or is expelled before the first day of classes, the school must return any funds to the FSEOG account that were paid to the student.



Late payment conditions

Under certain conditions, a student who drops out before receiving his or her Federal Perkins Loan or FSEOG can receive a payment (see Section 676.16(f) of the November 30, 1994 Final Rule). The school may disburse FSEOG funds to the student only if—

- the FSEOG is awarded to the student while he or she is still an eligible student; and
- the FSEOG funds are used to cover documented educational costs that were incurred for a payment period for which the award was intended and during which the student was actually enrolled; costs that may be included are those normally included in a student's cost of attendance under section 472 of the HEA (discussed in Chapter Two).

A school that disburses FSEOG funds to a student after he or she has dropped out must document in the student's file the reason for the late disbursement.

If a student drops out *after* receiving his or her FSEOG, but before the end of the payment period, the school determines the amount of any refund and repayment as discussed in Chapter Three, Section Four.

FREQUENCY OF DISBURSEMENTS

Standard term schools—once a payment period

If a school is awarding an FSEOG for a full academic year and the school uses standard academic terms, it must advance a portion of the grant during each payment period. (Generally, the total FSEOG award is divided by the number of payment periods the student will attend.) In schools with a traditional academic year, payment periods are usually defined as semesters, trimesters, or quarters.

Non-standard term schools—twice in school year

If the school does not use standard academic terms, it must advance funds at least twice during the academic year—once at the beginning and once at the midpoint. Normally, no more than half the award may be advanced before the midpoint. If the student attends less than an academic year, the award is divided by the number of payment periods the student will attend during the academic year. A school may advance funds *within* a payment period in whatever installments it determines will best meet the student's needs. However, if the total amount awarded a student under the FSEOG Program is less than $501 for an academic year, only one payment is necessary.

UNEQUAL DISBURSEMENTS

As is true for the Federal Perkins Loan Program, if the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, a school may make unequal FSEOG disbursements. For a discussion of uneven costs and unequal disbursements, see Chapter Six, Section Two.

FSEOG OVERPAYMENTS AND OVERPAYMENTS

School must take resources into account

As discussed in Chapter Five, a financial aid administrator may not award or disburse an FSEOG to a student if the grant, when combined with all other resources, would exceed the student's need. The aid administrator must take into account those resources that he or she can reasonably anticipate at the time aid is awarded to the student, those the school makes available to its students, or those the aid administrator knows about.

If an FSEOG recipient receives total resources that exceed the student's financial need for campus-based aid by more than $300, the amount over $300 is an overpayment. A list of resources and a discussion of overawards and overpayments are included in Chapter Five, Section Two: Resources and Overawards. A student is liable for any FSEOG overpayment made to him or her.

The school is also liable for an overpayment if the overpayment occurred because the school failed to follow the procedures outlined in Chapter Five, Section Three. The school must restore an amount equal to the overpayment and any administrative cost allowance claimed on that amount to its FSEOG account even if it cannot collect the overpayment from the student.

Notify ED of unrecovered overpayment of $25 or more

If the school makes an FSEOG overpayment that is not the result of institutional error, the school must promptly try to recover the overpayment by sending a written notice to the student requesting payment in full. A student who fails to repay overawarded FSEOG funds (even if the student owes less than $25) is ineligible for further SFA funds until the overpayment is resolved.

If a student objects that the school has made a mistake in determining the overpayment, the school must consider any information provided by the student and determine whether the objection is warranted before referring the overpayment to ED. If the school fails to collect the overpayment after taking these steps, *and* if the federal share of the overpayment is *$25 or more*, the school must notify ED of the overpayment, identifying the federal share of the overpayment, as well as the student's name, most

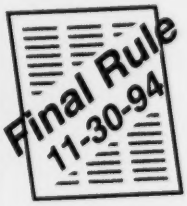
recent address, telephone number, and other relevant information. After providing this information to ED, the school is not required to make any further attempt to collect the overpayment. If the school is unable to collect the overpayment *and* the federal share is *less than $25*, the school is not required to make any further attempt to collect the overpayment.

SECTION THREE: PROGRAM FUNDS

The Higher Education Act of 1965, as amended, describes the allocation process in detail; those procedures are not repeated in the regulations for the FSEOG Program. Funds are allocated directly to schools according to the statutory formulas. Schools receive their disbursements in periodic installments, either in advance or as reimbursements. ED *reallocates* funds to a school in a manner that best carries out the purposes of the FSEOG Program.

A school must maintain funds received for its FSEOG Program in accordance with the cash management provisions of the General Provisions Final Rule published in the **Federal Register** on December 1, 1994. The provisions are effective beginning July 1, 1995 and are discussed in Chapter Three, Section Three.

As discussed in the Introduction to Chapter Five, if a school returns more than 10 percent of its allocation for a given award year, ED will reduce the school's allocation for the second succeeding award year by the dollar amount returned (refer to Section 676.4(f) of the Final Rule published in the **Federal Register** on November 30, 1994). ED may waive this provision for a specific school if it finds that enforcement would be contrary to the interest of the program. ED considers enforcement to be contrary to the interest of the program only if the school returned more than 10 percent of its allocation due to circumstances that are beyond the school's control and are not expected to recur. The information a school provided on its FISAP for the 1993-94 award year will determine the amount of reduction, if any, of the school's allocation for the 1995-96 award year.



FEDERAL SHARE AND NON-FEDERAL SHARE

Federal share is 75%

Non-federal share is 25%

The federal share of FSEOG awards made by a school may not exceed 75 percent of the total FSEOG awards made by the school for the 1993-94 and subsequent award years. The school must contribute a non-federal share (also called "institutional share") of 25 percent. However, ED may waive the non-federal share requirement and may authorize a federal share of 100 percent for an award year for a school that is designated as an eligible institution under the Strengthening Institutions program or the

Strengthening Historically Black Colleges and Universities program if the school requests the increased federal share on the FISAP for that award year.

Sources of non-federal share

The non-federal share of FSEOG awards must be made from the school's own resources. These resources may include—

- institutional grants and scholarships;
- waivers of tuition or fees;
- state scholarships; and
- funds from a foundation or other charitable organization.

Non-federal share may include all state scholarships except SSIG

ED has determined that all state scholarships and grants, *except* for State Student Incentive Grants (SSIGs), are eligible funds that may be used to meet the non-federal share requirement of FSEOG awards. SSIG awards, for this purpose, are defined as the federal SSIG allocation plus the state required dollar-for-dollar matching amount. The remaining state grants are considered non-SSIGs. "Dear Colleague" letter CB-94-21, issued in August 1994, provided a chart of percentages to indicate the portion of state scholarships in each state that could be used to provide the non-federal share of FSEOG awards for the 1994-95 award year. A similar chart for the 1995-96 award year will be issued in a future "Dear Colleague" letter.

The 1995-96 non-federal share requirement of 25 percent (unless the school qualifies for a waiver) may be met by one of three methods. In the discussion of the three methods that follows, it should be noted that, in order to meet the definition of an "FSEOG recipient," some portion of the grant awarded a student must have come from the FSEOG federal dollars. Also, at any point in time during the award period, when the FSEOG awards are disbursed, the required match must have been accomplished. That is, the school's own resources must have been disbursed prior to or at the time the federal dollars are disbursed. However, it is important to note that outside resources (i.e., state scholarships and foundation or other charitable organization funds) can be used to match FSEOG awards, even though funds are received at a later date, provided that the school has written information on an award from the non-institutional agency or organization to the student involved. The written information must be kept on file at the school.

Three methods of meeting institutional share

The three methods by which a school may meet its non-federal share are:

1. Individual FSEOG recipient basis—the school would provide its share to an individual FSEOG recipient together with the federal

share; i.e., each student's total FSEOG award would consist of 25 percent non-federal resources and 75 percent federal dollars for the 1995-96 award year.

2. Aggregate basis—the school would ensure that the sum of all funds awarded to FSEOG recipients in the 1995-96 award year would consist of 75 percent federal FSEOG funds and 25 percent non-federal resources. For example, if a school awards a total of $60,000 to FSEOG recipients in 1995-96, it would have to ensure that $45,000 was federal FSEOG funds and $15,000 was non-federal resources; if there were 100 FSEOG recipients, the entire $15,000 non-federal resource requirement could be met by the awarding of a total of $15,000 in non-federal resources to four FSEOG recipients. However, each FSEOG recipient must have received some federal FSEOG funds.

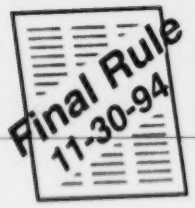
3. Fund-specific basis—the school could establish an "FSEOG fund" into which it deposits federal FSEOG funds and the required 25 percent non-federal share. Awards to FSEOG recipients would then be made from the "fund."

ADMINISTRATIVE COST ALLOWANCE

When a school calculates its administrative cost allowance for the 1995-96 award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75 percent federal share and the required 25 percent non-federal share. However, a school that chooses to provide more than a 25 percent institution share to FSEOG recipients may not include an FSEOG institutional share in excess of 25 percent in its FISAP or in the calculation of its administrative cost allowance. If a school has been granted by ED a waiver of its required non-federal share, that school's administrative cost allowance may be calculated only on the full federal portion. For additional information about the administrative cost allowance, refer to Chapter Five, Section Three.

TRANSFER OF FUNDS FROM FSEOG PROHIBITED

The Higher Education Amendments of 1992 prohibit the transfer of FSEOG Program funds to any other program. Therefore, for 1993-94 and subsequent award years, FSEOG funds may no longer be transferred to the FWS Program. However, a school may transfer up to 25 percent of its FWS allocation and 25 percent of its Federal Perkins Federal Capital Contribution (FCC) allocation to the FSEOG Program.



Nevertheless, a school that transfers funds to the FSEOG Program from the FWS Program during an award year must transfer any unexpended FSEOG funds *back* to the FWS Program at the end of the award year (refer to Section 676.18 of the November 30, 1994 Final Rule). The same requirement exists for Federal Perkins Loan FCC funds transferred to the FSEOG Program (Section 674.18 of the Final Rule).

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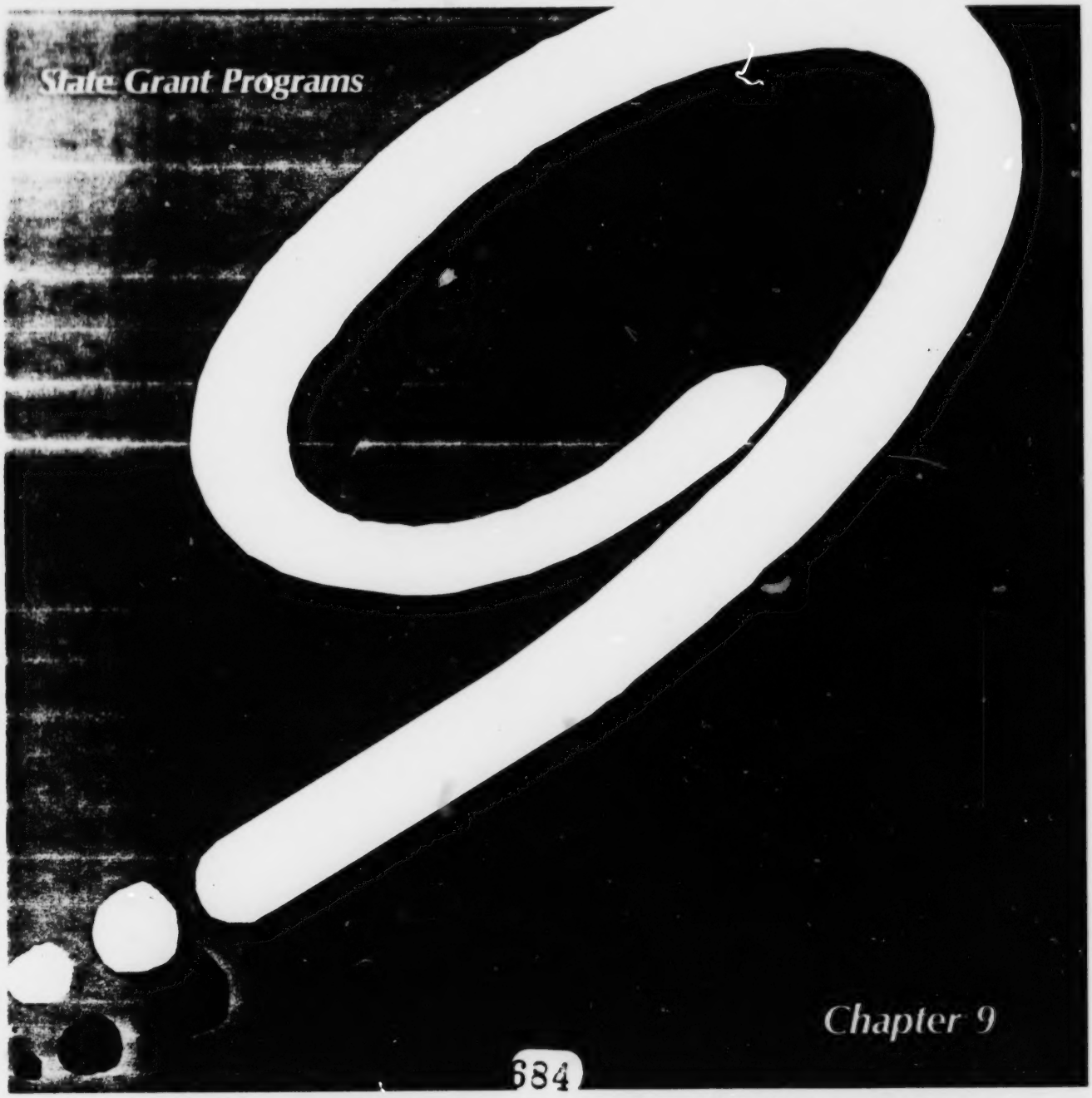

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INTRODUCTION

This chapter covers the State Student Incentive Grant (SSIG) Program, the Robert C. Byrd Honors Scholarship Program (Byrd Program), the Paul Douglas Teacher Scholarship Program (Douglas Program), and the National Early Intervention Scholarship and Partnership (NEISP) Program. The SSIG, Byrd and NEISP Programs are authorized under Title IV of the Higher Education Act of 1965, as amended (HEA); the Douglas Program is authorized under Title V of the HEA.

How the programs are funded

Students apply for financial assistance from these four programs through the appropriate educational assistance agency in their states. Under the SSIG Program, the Secretary of Education provides funds to states to establish a state grant program to provide assistance to students who demonstrate substantial financial need, and each state matches the Federal funds on at least a 50-50 ratio. Under the Byrd Program, the Secretary makes grants to states to enable those states to award scholarships to high school seniors who have demonstrated outstanding academic achievement and who show promise of continued academic achievement. Under the Douglas Program, the Secretary makes grants to states to enable those states to award scholarships to outstanding individuals who demonstrate an interest in teaching at the preschool, elementary, or secondary levels. Under the NEISP Program the Secretary provides grants to states to encourage the states to provide early intervention and scholarship assistance to encourage students to obtain high school diplomas and to pursue higher education.

State agency listing

Students who have any questions on eligibility and award procedures for any of these programs should be directed to the appropriate state agency that administers the program in that student's state. (There is no individual state agency list for the NEISP Program. See page 39 of Section Four of this chapter for more information.) A complete list of these agencies is included in Section Five of this chapter.

Recent legislative changes

The NSSP Program has been repealed under Public Law 103-382, Improving America's Schools Act, which was signed by the President on October 20, 1994. In addition, at the time this *Handbook* went to print, funding for fiscal year 1995 was proposed for recision. Note, however, that fiscal year 1995 funding, if kept, would only be used for one year of continuing scholarships in 1995-96. No new scholarships would be awarded. You should encourage any former NSSP recipients to pursue other types of federal and non-federal student assistance described in this *Handbook*, the *Student Guide*, or in the reference section of their school or local public libraries to replace any lost funding.

SECTION ONE: STATE STUDENT INCENTIVE GRANT (SSIG) PROGRAM

Purpose of program

The State Student Incentive Grant (SSIG) Program assists states in providing grants to eligible students who attend postsecondary schools and have substantial financial need. Each state may use a percentage of its SSIG funding to provide work-study assistance through community service-learning job programs. (This work-study assistance is explained in more detail beginning on page 4 of this section.)

These state programs carry a variety of names that do not necessarily include the words "student incentive grants" as part of the program titles. The SSIG Program provides funds to the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, Guam, the Northern Mariana Islands, and the Republic of Palau.

Because of the variations in state programs, student and school inquiries about SSIG and other state grant, scholarship, and work-study assistance should be directed to the state agencies listed in Section Five of this chapter, instead of to the Department of Education (the Department).

To help financial aid administrators understand the variety of state practices, this section describes some of the conditions and regulations that affect state program operations.

MATCHING REQUIREMENTS

States receive annual SSIG allotments (formula grants) from the Department based on each state's eligible postsecondary education enrollments. The federal allotments must be matched by funds appropriated by the state, and this matching must represent an increase in the state-appropriated grant and work-study expenditure over the amount spent during an established base year (defined as the second year before the state began participating in the SSIG Program). Also, the state must maintain its matching SSIG Program expenditures at a level **not less than** the average for the preceding three fiscal years, or at the level of the average per full-time equivalent student for those years. SSIG Program expenditures

used in matching the federal allotment must be the net amount of expenditures and should not include any refunded or returned amounts that were not actually expended.

Matching must be in auditable dollar amounts; tuition waivers or remissions may be considered grants only if money actually changes hands from state to school to student, and if this transfer can be documented as a cash transaction in the appropriate records at each level.

Community service-learning job program

Each award year, a state may use up to 20 percent of its allotment for a community service-learning job program. The student must receive compensation for work, and not a grant. The job program must be administered by postsecondary schools in the state, and each student employed under the program must be employed in work in the public interest. The employer may be a school, or a federal, state, or local public agency or private nonprofit organization under an arrangement between the school and the agency or organization.

Schools, in consultation with local nonprofit, governmental, and community-based organizations, identify jobs in direct service, planning, or applied research, that are designed to improve the quality of life for residents (particularly low-income residents) of the community served.

Each community service-learning job must—

- ❑ provide participating students community service-learning jobs related to their educational or vocational programs or goals;
- ❑ be governed by conditions of employment that are considered appropriate and reasonable, based on such factors as type of work performed, geographic region, and proficiency of the employee;
- ❑ pay at least the current federal minimum wage as mandated by the Fair Labor Standards Act of 1938 (but may not use the subminimum wage);
- ❑ not result in the displacement of employed workers or impair existing contracts for service; and
- ❑ not involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction.

Funding reallotment

Basic SSIG allotments not used by one state are reallotted to other qualified states. Within the constraints of federal appropriations, states are free to schedule their own funding cycles for students, but funds may not be carried over from one fiscal year to the next. However, they may be used

for summer terms, provided they are obligated within the program year (July 1 through June 30) for which they were appropriated.

ADMINISTRATIVE PATTERNS

There are three ways in which a state may choose to administer its program: it may choose to use a centralized administrative pattern, a decentralized administrative pattern, or a combination of both. Whichever method is used, a state must use all federal funds and state matching funds for student awards. (A state cannot use either federal funds or its state matching funds to help defray administrative costs.)

Centralized administration

Most states, particularly those with well-established state student assistance programs, use a centralized administrative pattern. That is where a single state agency receives and processes student applications, notifies students of awards, verifies attendance, makes disbursements, and keeps complete records on all student awards.

Decentralized administration

In other states, particularly those with relatively new state programs, the designated state agency delegates certain functions to participating schools. In these cases, funds available through the state agency are generally sub-allocated to eligible schools on the basis of enrollment or need formulas. The schools recommend SSIG recipients to the state agency, which approves individual awards from these fund allotments. In these states that use decentralized administration, funds awarded under these programs are still considered to be state aid and not institutional aid.

Location of student files

In the centrally administered state programs, actual student files are located in the state agency. In the decentralized form of state administration, where schools process much of the student information, the financial aid administrator gives the state agency the information needed for formal approval of individual student awards. In either case, to monitor the use of SSIG funds, student files at schools are examined to verify that recipients met all eligibility criteria and received the correct award amount.

SCHOOL PARTICIPATION

Within the limits of federal statutes and regulations, states determine eligibility standards in terms of their own fiscal, constitutional, and statutory restraints. See Chapter Three on institutional eligibility for details about the federal limits placed on school participation.

Schools that are licensed by their state agency as clock-hour institutions must use clock hours to determine a student's eligibility for SFA funds. For further information, see Chapter Three.

All nonprofit institutions of higher education in a state are eligible to participate, except when participation violates the state's constitution or a state law enacted before October 1, 1978. While states are not required to include proprietary (for profit) schools in their state programs, 33 states currently make SSIG awards available to students attending such schools.

Other factors affecting participation

School participation may also be affected by some states sub-allocating available SSIG funds to the various types of schools on the basis of enrollment, need, the availability of other non-SSIG aid, and other relevant criteria. In such instances, money not claimed for student awards at one school may be reclaimed by the state and reassigned to other schools.

STUDENT ELIGIBILITY

Student eligibility to receive aid from the SSIG Program differs from state to state according to constitutional, statutory, or policy restrictions. (Some states have legislated formulas for determining student eligibility and the amount of assistance given to individual students.) However, to be eligible for assistance under the SSIG Program, all students must meet the relevant eligibility requirements contained in Subpart A of the General Provisions regulations (34 CFR Part 668.7) and must demonstrate substantial financial need as determined in accordance with the states' criteria as approved by the Secretary. The standards that states may use to determine need are discussed in more detail in the subsection on Student Application Procedures and Awards beginning on page 8 of this section.

The relevant eligibility requirements of Subpart A are summarized briefly below. These requirements are covered in greater detail in Chapter Two of the *Handbook*.

General eligibility requirements to receive SFA funds

In general, the student must—

- be either a U.S. citizen or an eligible noncitizen;
- be enrolled as a regular student in an eligible program at an eligible school;
- have a high school diploma or its recognized equivalent (or be beyond the age of compulsory school attendance in the state where the school is located and have passed an independently administered test approved by the Department;

- ❑ be making satisfactory academic progress in his or her course of study; and

- ❑ file a Statement of Educational Purpose/Certification Statement on Refunds and Default, a Statement of Registration Status, and a Statement of Updated Information.

A student is not eligible for SFA funds if he or she—

- ❑ is enrolled in an elementary or secondary school;

- ❑ has borrowed in excess of the annual or aggregate limits for the SFA loan programs; or

- ❑ is in default on a student loan or owes a refund on a student grant from the SFA programs.

Eliminating SSIG overpayments

If, however, a student owes a refund on an SSIG overpayment, that student would still be eligible to receive further SFA funds if he or she meets all other eligibility requirements and if the school can eliminate the overpayment by adjusting financial aid payments (other than Federal Pell Grants) in the same award period in which the overpayment occurred.

Other factors that determine whether a student is eligible for an SSIG award include the state's definition of substantial financial need, the method of determining maximum awards, and the costs that can be covered. Some states limit awards to the cost for tuition and fees; others include allowances for room, board, and other costs. Some have allowances for commuters. Many state grant programs exclude part-time students and those who attend schools outside the state. Some states have reciprocal arrangements with neighboring states, so that students may receive SSIG funds from their home state even though they are enrolled in a school in another state. SSIG funds may be awarded to students participating in programs of study abroad that are approved for credit by the school.

A state's SSIG independent student program funding should be comparable to the overall state program if the entire state program is not contained in the state's SSIG Program. To the extent practicable, the proportion of SSIG funds awarded to independent student's in the SSIG Program shall be the same proportion of funds awarded to independent students in the state program or programs of which the state's SSIG Program is a part.

If a state awards grants to independent or less-than-full-time students, it must make a reasonable portion of its allocation available for these awards. The Secretary of Education (the Secretary) will determine if the allocation is reasonable on a case-by-case basis, if necessary.

If the state's allocation is based on a formula that includes the financial need of independent or less-than-full-time students, the state must ensure that those students receive a reasonable proportion of SSIG funds.

STUDENT APPLICATION PROCEDURES AND AWARDS

Students apply to the state agency either directly or indirectly through the schools. Every award requires the official state agency's formal approval, based on a determination of need. (Section Five of this chapter contains a listing of these state agencies.)

Maximum award

The maximum award that a student may receive is $5,000 per academic year. The maximum award is reduced proportionately for students who attend part-time. Some states set maximum awards that are less than $5,000.

Most states limit SSIG awards to undergraduates attending at least half-time. However, at each state's option, graduate, less-than-half-time, and other nontraditional students may also be eligible to receive SSIG awards. States may determine whether to make individual SSIG awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

Determining substantial need

Student recipients are selected annually on the basis of substantial need, according to criteria established by the state and approved by the Department. A state may define need in terms of income, expected family contribution, or relative need, as measured by cost of attendance minus available resources. Regardless of which need analysis system the State selects, the designated state agency is responsible for final approval of individual student recipients, thus allowing each state to develop consistent methods in awarding aid to candidates throughout the state.

Need analysis systems

Most states measure need using a single need analysis system for all applicants (predominantly the Federal Needs Analysis Methodology). However, in decentralized programs, where schools recommend student candidates for awards subject to the designated state agency's approval, student applications may be processed according to the different need analysis systems used by the various schools. In any event, the designated state agency has final authority for selecting recipients who meet the need criteria under standards established for the statewide program.

Determining a student's dependency status

As discussed in Chapter Two, a student who applies for aid from any of the SFA programs must include parental information on the application if the student is dependent. An independent student need only include his

or her financial information (and that of a spouse, if married). The criteria for applying as an independent student are listed in Chapter Two.

Alternative criteria for determining dependency status

For the 1995-96 award year and subsequent years, the Department may approve, on a case-by-case basis, a state's use of criteria that vary from those listed in Chapter Two. The state must show that it had good reason to use different criteria.

States that wish to use a variant definition of "independent student" must provide information concerning their "independent student" definition at the time of application for program funds. The information should include a justification, with accompanying supporting documentation, showing why a variant definition should be approved. For example, a state may want to use its own definition of "independent student" because it may incur excessive costs if it is required to use the federal definition.

In approving a state's definition of "independent student," the Department might also consider the extent to which the new definition imposes additional data requirements beyond those provided for by the federal definition and the Federal Needs Analysis Methodology.

A state's variant definition might not totally differ from the federal definition. For example, a state might use the federal definition without the professional jugdment provision.

Cost of applying

To award a student state aid, a state may require a student to provide applicant information on the Free Application for Federal Student Aid (FAFSA) or on another free form. In addition, the state may require a student to provide supplemental information on a fee-based supplemental form. If there is a fee for submitting and processing the state information on the supplemental form, the fee must be payable to the state.

This fee must be payable to the state regardless of whether the information may also be used for institutional aid. In the case of a decentralized state grant program under which schools participating in the state's SSIG Program award state grant funds, these funds are still considered to be state aid and not institutional aid. For more detailed information on how a decentralized program works, see page 5 of this section.

Records and reports

State agencies responsible for administering SSIG funds must be able to document their decisions and disbursements from their own central records, from school records, or from both. Variations of student/school rosters are often sent back and forth between the state agency and the schools to verify attendance, provide information related to student need, document disbursement of funds to students or to student accounts, guard against overawards, and help provide required records and reports.

FISCAL AND REPORTING RELATIONSHIPS BETWEEN SCHOOLS AND THE STATE AGENCY

In general, fiscal and reporting relationships between participating schools and the state agency vary according to whether the state's programs are administered according to a centralized or decentralized pattern, or a combination of these two patterns. In any case, the state agency must be held accountable for the disbursement of federal funds and for making the required reports to the Department of Education. States are given considerable leeway in the standards used to demonstrate fiscal responsibility for the SSIG Program. However, participating schools must meet the federal standards of fiscal responsibility described in Chapter Three of the *Handbook*.

At a minimum, even in the most centralized administrative pattern, schools must supply assurances regarding student academic progress, the status of grant refunds, and the status of loan defaults. Schools must also document student acknowledgment of awards if funds are paid to the school on behalf of the recipient, and cooperate in packaging aid to avoid overawards.

In decentralized systems, where the state agency depends on the school to help screen applicants, the school's records must also supply need analysis documentation to justify formal approval of individual awards by the official state agency.

Individual student awards are subject to approval by the designated state agency. Schools may not transfer awards from one student to another without that agency's approval. Schools and state agencies should maintain regular communication so that any funds that become available later in the year will be used for qualified students.

All funds (federal plus state) recovered from overawards should be reissued to other qualified students during the applicable award period unless records for the period have been closed. If these funds are not reissued to qualified students, the state must return the recovered federal portion to the Department.

School reports document fund disbursement

The state agency requires certain school reports to document the disbursement of federal funds to student recipients. The school reports also provide information needed to improve efficiency in the operation of state programs, and to provide data for state budgets and for annual reports to the Department.

The actual form and content of school reports will vary from state to state, depending upon, among other factors, the size and maturity of the state programs. There are no standard formats or channels for these school reports. For example, information about recipients by income level may come either from the central office records or from the schools. Communication may follow established procedures or may be developed through cooperative efforts of state and school representatives.

Student and school inquiries

For specific information on state student financial assistance policy, student and school eligibility, and grants to students attending out-of-state schools, contact the SSIG state agency program individuals listed in Section Five of this chapter.

SECTION TWO: ROBERT C. BYRD HONORS SCHOLARSHIP PROGRAM

Purpose of program

The Robert C. Byrd Honors Scholarship Program is authorized under Title IV, Part A, Subpart 6 of the Higher Education Act of 1965, as amended. Under this program, the Secretary of Education (the Secretary) makes available, through grants to the states, scholarships to exceptionally able students for study at postsecondary schools in order to recognize and promote student excellence and achievement. Student recipients under this program are known as Byrd Scholars.

SELECTION OF SCHOLARS

Definition of state

To apply for a scholarship, a student follows the application procedures established by the State Educational Agency (SEA) in the state in which he or she is a legal resident. A "state" means any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, Northern Mariana Islands, Federated States of Micronesia, Marshall Islands, or the Republic of Palau. The SEA is the state board of education or other agency in that state, which is primarily responsible for the supervision of public elementary and secondary schools.

Procedures for selecting scholars established by SEA

The SEA establishes procedures for selecting the scholars after consulting with school administrators, school boards, teachers, counselors, and parents. Before each state's selection criteria and application procedures are implemented, they are reviewed and approved by the Department. Those students who are selected to receive scholarship assistance under the Byrd Program will receive a scholarship in the amount of $1,500 per academic year of study.

Definition: A year of study under the current Byrd regulations means the period of time during which a full-time student at an institution of higher education is expected to complete the equivalent of one year of course work, as defined by the school.

Renewability of awards

Awards can be renewed for up to three additional years, provided that funds are appropriated and students remain eligible. This continuing eligibility is discussed in further detail beginning on page 16 of this section.

Selection criteria designed for equitable representation

Each SEA designs the selection criteria and procedures to ensure that it selects scholars for each award period for which funds are received according to the following allotments:

- For each state, no fewer than the number of scholars allotted to that state by the Secretary under the statutory formula are selected.
- For the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, Virgin Islands, the Northern Mariana Islands, Palau, the Federated States of Micronesia, and the Marshall Islands, no fewer than 10 scholarships from among each of those jurisdiction's respective residents are selected.
- For all participating states, enough scholars are selected to award all funds allotted for scholarships for each award period.

In addition, the SEA—

- selects scholars solely on the basis of demonstrated outstanding academic achievement and promise of continued achievement;
- selects scholars in such a way that each part of the state, the District of Columbia, and Puerto Rico is represented fairly; and
- selects scholars without regard to—
    1) whether the secondary schools they attend are within or outside the scholars' states of legal residence;
    2) whether the postsecondary schools they plan to attend are public or private or are within or outside the scholars' states' of legal residence;

3) the scholars' sex, race, color, national origin, religion, disability, or economic background; and

4) the scholars' educational expenses or financial need, except that the total amount of financial aid awarded to a scholar for a year of study may not exceed the scholar's total cost of attendance.

Schools scholars may attend

A scholar may attend any public or private nonprofit institution of higher education, proprietary institution of higher education, or postsecondary vocational institution as defined in Chapter Three of the *Handbook*.

Students apply through their state of residency

Under current program regulations, a student who is attending a secondary school outside of his or her state of residency applies for a Byrd Scholarship through the SEA of his or her state of residency. This would include a student who was attending a Department of Defense overseas school or an out-of-state boarding school.

ELIGIBILITY TO RECEIVE SCHOLARSHIP

To receive a Byrd Scholarship each student must follow the criteria listed below during the same secondary academic year in which the student submits the scholarship application.

The student must—

- graduate from a public or private secondary school or receive the recognized equivalent of a high school diploma as recognized by the state in which the student resides, and

- have applied or been accepted for enrollment at an institution of higher education as a full-time student.

Note: The "recognized equivalent of a high school diploma" means—

1) a General Education Development (GED) Certificate; or

2) a state certificate received by a student after the student has passed a state-authorized examination that the state recognizes as the equivalent of a high school diploma.

Definition: A full-time student is one who is enrolled at an institution of higher education and who is carrying a full-time academic workload, as determined by the school under standards applicable to all students enrolled in the same program.

Additional eligibility requirements for selection

In addition to the above two requirements, a student is eligible to be selected as a scholar if he or she—

- ❑ is a legal resident of the state to which he or she is applying for a scholarship;
- ❑ is a U.S. citizen or national, or provides evidence from the U.S. Immigration and Naturalization Service that he or she is—
  a) a permanent resident of the United States; or
  b) in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident;
- ❑ is a permanent resident of Palau;
- ❑ is not ineligible to receive assistance as a result of default on a federal student loan or other obligation, in accordance with the Education Department General Administrative Regulations (34 CFR Part 75.60);
- ❑ files with the school he or she plans to attend, or is attending, a Statement of Selective Service Registration Status if required by the school in accordance with the Student Assistance General Provisions regulations (34 CFR Part 668); and
- ❑ is planning to pursue a course of study at an institution of higher education.

  Note: A scholar is deemed to be "pursuing a course of study" if he or she is enrolled as a full-time student, as determined by the school he or she is attending under standards applicable to all students enrolled in that scholar's course of study.

CONTINUING ELIGIBILITY CRITERIA

A scholar continues to be eligible for scholarship funds as long as he or she continues to—

- ❑ meet the citizenship/permanent resident requirements listed previously on this page;
- ❑ be enrolled as a full-time student at an institution of higher education; and
- ❑ maintain the satisfactory academic progress standards of the school in accordance with the Student Assistance General Provisions.

Part-time enrollment allowed after first year

Byrd Scholars must be enrolled full-time for the first year of study. If after the first year of study, the SEA determines that unusual circumstances justify waiver of the full-time attendance requirement, the scholar may enroll part-time and continue to receive a scholarship payment.

The SEA must prorate any payment for a scholar enrolled part-time according to the scholar's enrollment status for the academic period during which he or she—

- ❑ continues to be enrolled on a part-time basis; and
- ❑ remains otherwise eligible for the award

The example below shows how a Byrd Scholarship is paid when full-time attendance is waived.

EXAMPLE:

During the 1995-96 year, Joyce B. enrolls full-time for the fall semester and enrolls halftime for the spring semester. During the spring semester, Joyce's full-time enrollment requirement has been waived. Joyce would then be eligible for one-half of her full scholarship for the fall—

$1,500 x 1/2 = $750

For the spring, since Joyce will be attending halftime, and her full-time attendance requirement has been waived, she will be eligible to receive one-half of the remaining $750, or $375.

Scholarship suspension

A scholar who fails to meet any of the eligibility requirements within an award year will have his or her scholarship suspended by the SEA. The scholar's eligibility remains suspended until the scholar is able to demonstrate to the satisfaction of the SEA that he or she meets these requirements. Once the suspension period reaches 12 months, the scholar's eligibility for that scholarship is terminated.

In exceptional circumstances, established by the SEA, the scholar's 12-month suspension period may be extended without terminating the scholar's eligibility.

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Postponement of enrollment

A state agency may permit a scholar to postpone or interrupt his or her enrollment at a postsecondary school for up to 12 months, beginning on the date the scholar otherwise would have enrolled in the school after the state agency awarded him or her the scholarship or on the date the scholar interrupts enrollment.

Each state agency establishes standards to determine when it will approve a period of postponement or interruption for a scholar. If the state does approve the postponement or interruption, it must document the scholar's subsequent enrollment.

A scholar who postpones or interrupts his or her enrollment is not eligible to receive scholarship funds during the period of postponement or interruption. Upon enrollment or re-enrollment at an institution of higher education, the scholar resumes eligibility to receive scholarship payments. Note that these periods of postponement or interruption are not considered in calculating the scholar's period of suspension. Thus, any period of postponement or interruption will not be counted against the scholar in calculating the 12 months of suspension.

Scholarship funds cannot be used to attend foreign school

Byrd Scholarships are awarded for a period of not more than 4 years for the first 4 years of study. If the Byrd Scholar completes his or her undergraduate course of study in 3 years, that scholar is eligible to receive scholarship funds for only those 3 years of undergraduate study.

Note that a Byrd Scholar may not use his or her scholarship to attend a foreign school. The scholar must attend an eligible postsecondary education institution that is located in one of the states of the Union, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, Palau, the Federated States of Micronesia, and the Marshall Islands.

However, a scholar who is studying abroad through an institution (home school) that meets the definition of higher education and is located in a state (as described in the above paragraph) is considered to be eligible to receive funds as long as he or she is—

a) enrolled at the home school; and

b) receives credit from the home school.

AMOUNT ALLOTTED TO STATES FOR PAYMENT TO SCHOLARS

For each year, the Secretary allots to each participating SEA $1,500 multiplied by the number of scholarships assigned to that state. The Secretary uses the formula illustrated below to assign Byrd Scholarships to each participating state:

FORMULA

$$\frac{\text{Number of scholarships made to the individual state}}{\text{Number of scholarships made to all states}} = \frac{\text{That individual state's ages 5-17 population}}{\text{All states' ages 5-17 population}}$$

Note: The population figures used to calculate the allotment of funds are determined from the most recently available data from the Bureau of the Census.

PACKAGING OF BYRD SCHOLARSHIP WITH OTHER SFA FUNDS

Under Byrd regulations that took effect in September 1993, the SEA must ensure that the total amount of federal financial aid awarded to the Byrd Scholar does not exceed the scholar's total cost of attendance. If any federal loans are part of the scholar's financial aid package, they must be reduced prior to reducing the Byrd Scholarship. If the scholar is receiving a Pell Grant, though, the Byrd Scholarship must be reduced prior to reducing the Pell Grant. Section 419 J of the Byrd Program statute states that a Federal Pell Grant cannot be reduced on the basis of the receipt of a Byrd Scholarship.

Byrd scholarship must be reduced prior to reducing a Pell Grant

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SECTION THREE: PAUL DOUGLAS TEACHER SCHOLARSHIP PROGRAM

Purpose of program

The Paul Douglas Teacher Scholarship Program (Douglas Scholarship) is authorized under Title V, Part C (formerly Part D) of the Higher Education Act of 1965, as amended. It is a federally funded program that encourages outstanding high school graduates and recent GED certificate recipients to pursue teaching careers at the preschool, elementary school, or secondary school level.

Application procedures

Students apply for Douglas Scholarships through the designated state agency in the state in which they legally reside. The agency that administers the Douglas Scholarship may be the same agency that administers the SSIG Program, the Federal Family Education Loan Program, or any state agency approved by the Secretary of Education (the Secretary). A complete list of the agencies that administer the state programs that are covered in this chapter is contained in Section Five of the chapter.

BASIC ELIGIBILITY REQUIREMENTS

Receiving a Douglas Scholarship is basically a two-step process. First, the student must meet basic eligibility requirements to be considered for selection. The student must—

- be a U.S. citizen or national, or provide evidence from the Immigration and Naturalization Service that he or she is a permanent resident of the U S. or is in the U.S. for other than a temporary purpose with the intention of becoming a U.S. citizen or permanent resident; or be a permanent resident of the Republic of Palau;

- a) have graduated from high school; or
- b) be scheduled to graduate from high school by the end of the secondary school year in which the award is made;
- rank in the top 10 percent of his or her high school graduating class.

States may waive this last requirement for up to 25 percent of the new scholars who meet at least one of the special consideration requirements (see discussion of "special considerations" on next page). Most states have indicated that they probably will not invoke this waiver.

GED Certificate recipients

If the individual does not or did not attend high school, then in lieu of the last two items above, that individual would have to both: (a) have received a certificate of high school equivalency for successfully completing the Tests of General Education Development (GED), and (b) have received GED test scores that are recognized by the state as the equivalent to ranking in the top 10 percent of the high school graduates, either in the individual's state or nationally, in the academic year for which the eligibility determination is being made.

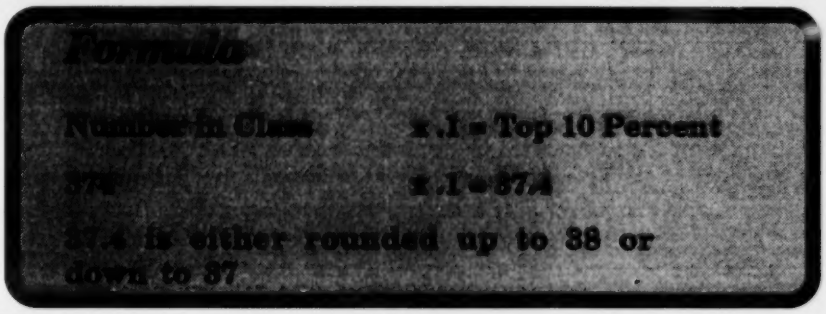
Determining the cutoff point

To determine the cutoff point for the top 10 percent of the class, the student population (number of students in the class) is multiplied by .1 (10 percent). Students who fall above the cutoff point are in the top 10 percent. In cases where the total number of students in the class is not a multiple of 10, the cutoff point will not be a whole number. In such cases, the state may decide whether—

- the number is rounded up to a whole number to allow for a larger pool of eligible applicants; or
- the number is rounded down to a whole number to decrease the eligible pool of applicants.

Rounding policy set each year by state

The state may set a policy each year based on pertinent factors such as the number of new scholarships it expects to fund in a given year and the quality of the pool of applicants received that year. The method of rounding on these borderline cases must be consistently applied in a given year within the state. The following example illustrates how the formula works:



In the example at the bottom of the previous page, the top 37 students fall within the top 10 percent of the class. The 38th student straddles the cutoff point, and may be included—at the state's discretion—in the top ten percent. However, the state is not required to include this student.

THE SELECTION PROCESS

The state agency designated by the governor to administer the Douglas Scholarship develops selection criteria and procedures. The state agency also may consider the views of local education agencies, private education institutions, and other interested parties.

The state agency designated to administer the program in each state could be the agency administering the SSIG Program, the Guaranty Agency, or another appropriate state agency approved by the Secretary.

The agencies are also required to provide **special consideration** in the selection of scholarship recipients to individuals who intend to—

Special Considerations in the selection of scholars

- ❑ teach or provide related services to students with disabilities;
- ❑ teach students limited in English proficiency;
- ❑ teach preschool aged children;
- ❑ teach in schools serving inner city, rural, or geographically isolated areas; or
- ❑ teach in curricular areas or geographic areas that are present teacher shortage areas.

In addition, the agencies must give **special consideration** to students who are from disadvantaged backgrounds, including—

- ❑ racial and ethnic minorities;
- ❑ individuals with disabilities; or
- ❑ individuals from low income backgrounds.

Applicants from "disadvantaged backgrounds" must also be "underrepresented in the teaching profession or in the curricular areas in which they are preparing to teach." The state will determine "underrepresentation." Either the state must identify applicants as being from disadvantaged backgrounds or applicants must be given the opportunity (through the student application) to identify themselves as being from

See §653.5--Definition of students from disadvantaged backgrounds

such backgrounds. If applicants are given the opportunity to identify themselves as being from disadvantaged backgrounds, they should be advised that they will receive special consideration for being from a disadvantaged background only if they identify themselves as such.

This special consideration requirement may be waived for no more than 25 percent of all individuals receiving a Douglas Scholarship in an award year. This means that a **minimum** of 75 percent of new scholarships must be awarded to applicants who also meet at least one of the several "special considerations," in addition to meeting the basic eligibility criteria. Continuing scholars do not need to be reselected each year under this selection criteria.

Statewide selection panel

The actual selection of scholars is made by a seven-member statewide panel, existing panel, or grant agency. In any case, the group of selecting officials for each state must be representative of school administrators, teachers (including special education and preschool teachers), and parents.

Representation requirements

A panel member can meet more than one of the representation requirements. Also, former teachers and school administrators can meet these representation requirements. For example, a school administrator who is a former special education teacher could meet the requirements as a special education teacher and as a school administrator.

Selection criteria and procedures

The criteria and procedures must reflect the present and projected needs of the state for preschool, elementary, and secondary teachers. Before these selection criteria and procedures are implemented, they are reviewed and approved for use by the Secretary.

Application availability

Each state makes applications available to its high schools and to other locations convenient to applicants, parents, and other interested parties. Applicants are selected without regard to whether they plan to attend publicly or privately controlled schools or schools within the state awarding the scholarship.

AMOUNT ALLOTTED TO STATES FOR PAYMENT TO SCHOLARS

Each state will receive an allotment of funds for the fiscal year based on the school-age population for all participating states. The population figures used to calculate the allotment of funds are determined from the most recently available data from the Bureau of the Census.

DETERMINATION OF AWARD

If selected, a Douglas scholar can receive up to a maximum of $5,000 per academic year for a maximum of four years. To determine the amount of the award for a particular academic year, the state agency asks the student's school for his or her cost of attendance and the total amount of aid that he or she has been awarded for that year under the SFA programs. The state agency, using the information provided by the scholar's school, determines how much that scholar will actually receive.

TREATMENT OF OVERAWARDS

Section 524 (c) of the Paul Douglas Program statute provides that a Douglas Scholarship shall not be reduced on the basis of the scholar's receipt of other forms of federal student financial assistance, but shall be taken into account in determining the scholar's eligibility for such aid.

Adjustment of SFA aid

If any adjustment of SFA and Douglas funds is necessary, SFA funds must be reduced first (*including a Federal Pell Grant*) in the following order:

- First - loans
- Second - work-study
- Third - other grants or scholarships
- Fourth - Federal Pell Grants

The Douglas Scholarship amount should be reduced last. Thus, if you have a situation in which a combination of a Douglas Scholarship and a Federal Pell Grant exceeds the scholar's cost of attendance, the Federal Pell Grant must be reduced.

Circumstances when SFA funds cannot be reduced

There are two circumstances under which a scholar's SFA funds cannot be reduced. If a scholar has already been disbursed his or her total loan proceeds for the entire year under the FFELP, then the loan cannot be reduced. Also, a scholar's Federal Work Study wages earned cannot be reduced once the scholar has worked the hours.

Adjustment of non-SFA aid with Douglas

If the Douglas Scholarship plus any other non-SFA assistance exceeds the school's cost of attendance, the state agency may not require the scholar to return the amount of the Douglas Scholarship in excess of the scholar's cost of attendance. In this case, the state agency or the scholar's school may counsel the scholar to decline the part of the Douglas Scholarship or non-SFA funds that exceeds the cost of attendance as expained at the top of the next page.

The scholar should be encouraged to decline **non-SFA loan funds** that, when combined with the Douglas Scholarship, exceed the cost of attendance. The scholar should be reminded that the Douglas Scholarship may convert to a loan if the scholar does not teach for the required period after graduating. (This teaching requirement is explained in detail beginning on page 28 of this section.) However, it should be made clear that the scholar is not required to decline the loan(s).

EXAMPLE:

The cost of attendance at a scholar's school is $6,000. The scholar has received a $3,000 loan from a community organization. If the scholar was also going to receive a $5,000 Douglas Scholarship (making the total package $8,000 [$3,000 loan + $5,000 Douglas Scholarship]), the state agency or school may counsel the scholar to decline the portion of the loan that exceeded need ($2,000) ($8,000 in total aid - $6,000 COA).

PACKAGING OF DOUGLAS SCHOLARSHIP WITH OTHER SFA FUNDS

Following applicable overaward provision

In the calculation of SFA assistance, the Douglas Scholarship may not be substituted for the scholar's EFC. (For a more detailed explanation of how financial aid is packaged, refer to Chapter Two of this *Handbook*.) When packaging aid, you must treat the Douglas Scholarship the same as you would treat most other types of scholarships.

Return of undelivered FFEL proceeds

If you become aware that the student is receiving a Douglas Scholarship prior to packaging aid for that student, the scholarship is considered as a resource in determining the student's eligibility for campus-based assistance and as estimated student financial assistance in certifying the student's eligibility for an FFEL loan. If you become aware of the Douglas Scholarship after packaging aid for the student, you must adhere to the applicable overaward provisions in the Campus-Based, and FFEL Program regulations. You should also note that any undelivered FFEL proceeds must first be returned to the lender before adjusting or cancelling a student's undisbursed campus-based grants or loans.

Also note that even though a Douglas Scholarship is considered to be a resource, it is not considered taxable income under the Internal Revenue Code.

MAINTAINING ELIGIBILITY

Once the applicant is selected to receive a Douglas Scholarship, the state agency will make payments to the scholar only during periods when the agency finds that the scholar is—

- ❑ enrolled as a full-time student in an institution of higher education that is currently accredited by a nationally recognized accrediting agency or association that the Secretary determines to be a reliable authority regarding the quality of training offered, in accordance with section 1201(a) of the Higher Education Act of 1965, as amended;

- ❑ pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level as determined by the state agency, which may include graduate study that is required for initial certification; and

- ❑ maintaining satisfactory progress as determined by the individual's institution of higher education. For an explanation of satisfactory progress, see Chapter Two of the *Handbook*.

Note: A course of study could include any collegiate academic program that meets a state's teacher certification requirements up to four years in duration.

Common exceptions to the full-time enrollment requirements include the following:

a. Full-time **student teaching** experiences are considered as full-time enrollment, regardless of the credit hours earned.

b. If a scholar needs less than a full-time credit load to graduate, the scholar may receive the Douglas Scholarship, if attending at least halftime.

c. If a state has a compelling and adequately documented reason to allow a scholar to continue to receive a scholarship despite less-than-full-time enrollment, the state may do so for **one term**. (A compelling reason might be a serious and prolonged illness.) The state's decision is final and cannot be appealed.

Note: The cost of attendance should be adjusted to reflect these limited exceptions.

Scholarships are renewable

Douglas Scholarships are renewable annually for each recipient who continues to meet the program eligibility requirements. (However, scholarship assistance is limited to no more than four academic years for each

scholar. This is a statutory limit.) In cases where a state allotment does not provide sufficient funds for the state to fully fund each eligible renewal scholar, the state may make pro-rata reductions to all its renewal awards so as to fulfill its renewal obligations. In that case, a state may not fund any new scholarships for the academic year. (Depending on the size of the reduction, the Department of Education (the Department) may choose to reduce the teaching obligation proportionately.) You should direct any student with questions on the renewability of Douglas Scholarships to that student's state agency. The list of agencies is in Section Five of this chapter.

SCHOLARSHIP AGREEMENT

Teaching obligation

To receive a scholarship an individual enters into an agreement with his or her state agency stating that upon completing his or her degree program, he or she will teach—

- ❑ full time in any state at the public or private nonprofit preschool, elementary, or secondary level in a school; or
- ❑ full time in a private nonprofit institution, children with disabilities or with limited English proficiency.

Determining full-time teaching status

In determining that a scholar has taught full time, the chief state school officer (CSSO),* school principal, or their designees should consider the following:

- ❑ Any activities required to support classroom teaching, such as testing and evaluation of students, a reasonable allowance for "prep time," or other required activities may be considered in addition to classroom hours.
- ❑ Full-time substitute teaching may be credited toward the teaching obligation, provided that the scholar teaches a minimum of one term each school year. Credit for one term or more of teaching will be prorated if it is less than a full school year.
- ❑ Scholars who are technically classified as part time, but whose teaching schedule is the equivalent to the typical full-time teacher may receive credit as having taught full time.
- ❑ If a scholar teaches less than a full school year, then teaching during summer school may be credited toward the teaching obligation. Other conditions contained in this section apply to teaching summer school.

* The CSSO is the highest ranking educational official for elementary and secondary education for the state.

- ❑ A teaching contract is not required in the employment situations listed previously in order to receive credit toward the teaching obligation.

- ❑ Scholars who are still teaching may receive credit previously denied for prior years under the liberalized conditions of this section. The state is encouraged to advise scholars of these changes, so that the scholar may request review of teaching credit by the state or request a revised teaching certification form (or forms) for reevaluation by the school principal or CSSO's office.

*Activities **not** acceptable as credit toward the teaching obligation include—*

- ❑ serving as a teacher's assistant or teacher's aide;

- ❑ serving a teaching internship (student teaching); and

- ❑ teaching overseas (including in Department of Defense Dependent schools).

In addition, volunteer activities may not be credited in classifying the scholar as teaching full time.

Reduction of teaching obligation

The requirement to teach two years for each year of scholarship assistance is reduced by one-half if the scholar teaches on a full-time basis in a teacher shortage area that is designated as such by the Secretary. States may propose for the Secretary's consideration teacher shortage areas at the preschool, elementary, and secondary school levels.

Teacher shortage areas

For Douglas Scholars, teaching in a teacher shortage area is described further in §653.61 of the August 11, 1993 Douglas Program regulations. Scholars teaching in a shortage area may obtain certification in one of two ways:

1) If the CSSO in the state where the scholar is teaching has previously notified the Secretary that a listing of teacher shortage areas will be provided to the school principal, then the school principal can certify that the scholar is—

   a) teaching full time and

   b) teaching in a federally approved teacher shortage area.

2) If the CSSO in the state where the scholar is teaching did not delegate certification authority to the school principals, then the CSSO's office will provide the certification.

Note: The Douglas regulations no longer require that scholars "teach on a full-time basis in a teacher shortage area." Therefore, if a scholar teaches full time and also teaches at least one class per day in a teacher shortage area, the scholar may receive the reduction of teaching obligation allowed for teaching in a shortage area. (This liberalization does not apply to Stafford or SLS loan deferments.)

A teacher shortage area is defined in §682.210(q)(5) through (7) of the Federal Family Education Loan Program (FFELP) regulations published on December 18, 1992.

The FFELP regulations also describe other procedures necessary to establish teacher shortage areas. The teacher shortage areas are designated on an annual basis. However, a scholar who teaches in an area designated as a teacher shortage area in one year will continue to qualify for the teaching reduction even if that area is not designated as a teacher shortage area in subsequent years. In this case, the scholar must provide the state agency with a statement from the principal of the school in which he or she is teaching certifying that he or she continues to be employed as a full-time teacher in the same area in which he or she was teaching when the teaching obligation was originally reduced.

When establishing a teacher shortage area, the Secretary must give special consideration to—

- ❑ areas in which emergency teacher certifications are being used to correct teacher shortages and

- ❑ states that have retirement laws permitting early retirement.

REPAYMENT OF SCHOLARSHIP IF STATE AGENCY/SCHOLAR AGREEMENT IS NOT FULFILLED

If the State finds that a Douglas Scholar has not complied with the state agency/scholar agreement or is no longer pursuing a course of study leading to certification as a teacher at the public or private nonprofit preschool, elementary, or secondary level, the scholar must repay the amount of the scholarship received. The repayment is prorated according to the fraction of the teaching obligation not completed as determined by the state agency. The scholar, in this case, is also responsible for paying a simple, annual interest charge on the outstanding principal, and all reasonable collection costs as determined by the state agency.

Repayment includes interest

The state agency capitalizes any accrued interest at the time it establishes the scholar's repayment schedule. By statute, the interest rate charged must be the greater of the rate charged to new borrowers under the Stafford Loan Program, or the rate charged to new borrowers under the PLUS Program. During 1994-95, for loans made from July 1, 1994

through June 30, 1995, the rate was 8.38 percent. For 1995-96, the rate will be determined in June 1995.

Simple interest accrues from—

Simple interest

- the date of the initial scholarship payment if the state agency has determined that the scholar—

  a) is no longer pursuing a course of study leading to certification as a teacher at the preschool, elementary, or secondary level; or

  b) has completed a course of study leading to certification as a teacher at the preschool, elementary, or secondary level, but never taught; or

- the day after that portion of the scholarship period for which the teaching obligation has been fulfilled. (The scholarship period is the original postsecondary academic year for which the scholarship was awarded.)

The scholarship must be repaid in monthly or quarterly payments that cover principal, interest, and collection costs, according to a schedule established by the state. The minimum yearly repayment is $1,200 or the unpaid balance (whichever is less).

Time allotted for repayment of the scholarship

The scholarship must be completely repaid within 10 years after the scholar enters repayment status, and the state may require the scholar to repay more than the minimum yearly repayment if needed to complete the entire repayment within the 10 year period.

Exceptions to repayment

An extension to the 10-year repayment period may apply if the scholar meets an "exceptions to repayment" condition. The state agency shall not consider that the scholar has violated the repayment schedule if he or she does not meet the payments during the time he or she is—

- engaged in a full-time course of study at a postsecondary institution;
- serving up to a maximum of 3 years as an active duty member of the Armed Forces of the United States;
- serving as a member of the Peace Corps or VISTA for a period of not more than 3 years;
- temporarily totally disabled, for a period not to exceed 3 years, as established by sworn affidavit of a qualified physician;
- seeking but unable to find full-time employment for a single period not to exceed 12 months;

- unable to secure employment for a period not to exceed 12 months while caring for a disabled child, spouse, or parent; or

- unable to satisfy the terms of the repayment schedule while seeking but unable to find full-time employment as a teacher in a public or private nonprofit preschool, elementary, or secondary school for a single period not to exceed 27 months.

A scholar may potentially qualify for more than one of the above exceptions to repayment, provided that the exception is adequately documented as determined by the state agency. Scholars residing overseas may apply for any of the exceptions listed, but the scholar must provide documentation deemed acceptable by the state.

Qualifying for more than one exception

To qualify for any of the previously listed exceptions, the scholar must notify the state agency of his or her claim and provide supporting documentation as required by the state agency. If the scholar qualifies under any of the exceptions, he or she will not be required to make repayments *nor will interest accrue* on the outstanding balance. The state agency will notify the scholar about its determination of the scholar's qualification for the exception for which he or she petitioned the state.

Notifying the state agency

The state agency shall extend the 10-year scholarship repayment period by a period equal to the length of time a scholar—

Length of extension

- meets any of the "exceptions to repayment" conditions previously listed; or

- is unable to complete the scholarship repayments within this 10-year period because of his or her financial condition (as established to the state's satisfaction).

The state agency shall cancel a scholar's repayment obligation if it determines—

- on the basis of a sworn affidavit by a qualified physician, that the scholar is unable to teach on a full-time basis because he or she is totally and permanently disabled; or

- on the basis of a death certificate or other evidence, conclusive under state law, that the scholar has died.

SECTION FOUR: NATIONAL EARLY INTERVENTION SCHOLARSHIP AND PARTNERSHIP (NEISP) PROGRAM

The Higher Education Amendments of 1992 authorized funds for the creation of the National Early Intervention Scholarship and Partnership (NEISP) Program. Congress funded this program for the first time for FY 1994. Under this program, states carry out the activities of both an early intervention component and a scholarship component.

Grants provide financial incentives for states

Under the NEISP Program, the Secretary of Education (the Secretary) provides grants to states to—

- encourage the states to provide or maintain a guaranteed amount of financial assistance necessary to permit eligible low-income students who obtain high school diplomas or the equivalent to attend an institution of higher education; and

- provide financial incentives to enable states—in cooperation with local educational agencies, institutions of higher education, community organizations, and businesses—to provide a variety of services.

These services include—

- providing additional counseling, mentoring, academic support, outreach, and supportive services to preschool, elementary, middle, and secondary school students who are at risk of dropping out of school; and

- providing information to students and their parents about the advantages of obtaining a postsecondary education and about their college financial options.

Program appropriation for 1995-96

When program appropriations are less than $50 million, states will apply for funds through a discretionary grant competition. For the 1995-96 award year, funding has been tentatively approved for both the early intervention component and the scholarship component. However, at the time the Handbook went to print, the funding levels had not yet been finalized. For 1995-96, the program will be run as a discretionary grant program and funds will be allotted to states on a competitive basis. The Secretary will evaluate each state's application on how well each state fulfulls its responsibilities in—

- ❑ submitting to the Secretary an initial plan and application for carrying out the activities under the NEISP Program;
- ❑ fulfilling the NEISP Program's early intervention component; and
- ❑ fulfilling the NEISP Program's scholarship component.

Evaluation of state applications

The state applications are evaluated using selection criteria, which take into consideration the state's—

- ❑ need for the program;
- ❑ plan of operation;
- ❑ quality and qualification of the personnel who will be running the program in the state;
- ❑ budget and cost-effectiveness;
- ❑ adequacy of resources;
- ❑ likelihood of success;
- ❑ public and private support;
- ❑ coordination with other early intervention activities;
- ❑ willingness to contribute more than one-half the cost of the program and the extent to which the state will overmatch its federal allotment; and
- ❑ evaluation report plan.

STATE ELIGIBILITY

Only states are eligible to apply for this program. A state must submit to the Secretary a state plan and an annual application describing in detail how the state will carry out the activities of both the early intervention component and the scholarship component. The state must also describe how it will provide funds for the program.

State agency designated by governor

The agency responsible for administering the NEISP Program in each state is designated by the state's governor. That agency may be either the state's SSIG agency, the State Education Agency (SEA), or another agency approved by the Secretary. (The SEA is the agency responsible for supervising the state's public elementary and secondary schools.)

MATCHING REQUIREMENTS

In its plan, a state must demonstrate to the Secretary that it will provide from state, local, or private funds at least one-half of the program costs and describe how those funds will be paid. All funds expended under this program must supplement, and not supplant, funds expended for existing state and local programs. A state may match the federal funds by means of—

- ❑ scholarships or grants paid to students under the program from state, local, or private funds;
- ❑ tuition, fees, room or board waived or reduced for recipients under this program; and
- ❑ funds expended on documented, targeted, long-term mentoring and counseling provided by volunteers or paid staff of nonschool organizations.

EARLY INTERVENTION COMPONENT

Early intervention activities include comprehensive mentoring, counseling, outreach, and supportive services (including postsecondary financial aid counseling) to students in preschool through grade 12.

Permissible activities allowed under this component

States may provide eligible students in certain grade levels (preschool through grade 12) with a continuing system of mentoring and advising that is coordinated with the federal and state community service initiatives. Permissible activities under this component may include—

- ❑ after-school and summer-school tutoring;
- ❑ assistance in obtaining summer jobs;

- career mentoring and
- academic counseling.

Participating students must agree to achieve certain academic milestones

Participating eligible students may enter into an agreement under which they agree to achieve certain academic milestones in exchange for receiving tuition assistance for a time period established by each state. Such milestones would include completing a prescribed set of courses and maintaining satisfactory academic progress.

Activities must be designed to ensure high school completion and college enrollment of at-risk children.

States may provide pre-freshman summer programs that—

- are at institutions of higher education with programs of academic-year supportive services for disadvantaged students;
- assure the participation of disadvantaged students;
- provide summer instruction in remedial, developmental, or supportive courses, or summer services such as counseling, tutoring, or orientation;
- provide grant aid to cover pre-freshman summer costs; and
- assure that participating eligible students will receive financial aid during each academic year they are enrolled at the participating institution after the pre-freshman summer.

Providers of early intervention activities

Early intervention activities may be provided by community-based organizations, schools, public and private agencies, nonprofit and philanthropic organizations, businesses, and other organizations the Secretary deems appropriate.

The state must treat as a priority student for its early intervention component any student in preschool through grade 12 who is eligible—

- to be counted as attending a Chapter I school (a Chapter I school serves educationally and economically deprived students);
- for the National School Lunch Program; or
- for Aid to Families with Dependent Children assistance.

SCHOLARSHIP COMPONENT

Each participating state must establish or maintain a financial assistance program for participating students. States are encouraged to ensure that tuition assistance under the NEISP Program is available for use at any institution of higher education that participates in the Federal Pell Grant Program.

Each state sets the maximum amount a participating student may receive under the NEISP Program. The minimum amount of the scholarship shall not be less than the lesser of—

Each state sets its own maximum award

- 75 percent of the average cost of attendance for an instate student enrolled in a 4-year program of instruction at public institutions of higher education in the state or
- the maximum funded Federal Pell Grant for that fiscal year.

STUDENT ELIGIBILITY

To be eligible to receive a scholarship under this component, a student must—

- have not reached his or her 22nd birthday at the time of the first grant award;
- receive a high school diploma or its recognized equivalent on or after January 1, 1993;
- be enrolled or accepted for enrollment at an institution of higher education that is located within the state, except that a state may offer scholarship portability for recipients who attend institutions outside the state; and
- have participated in the state early intervention component under the NEISP Program or, at the option of the state, have successfully participated in either an Upward Bound program or another early intervention program comparable to the NEISP Program.

If a state includes academic milestones in a student agreement and requires the student to meet those milestones to be eligible for a scholarship, then the student must have met or exceeded the milestones to receive the scholarship. The student agreement is made under the NEISP Early Intervention component. Under this agreement, the state will provide postsecondary tuition assistance to a student during a period of time to be established by the state if the student agrees to achieve certain academic milestones. An example of one such milestone is maintaining

satisfactory academic progress according to the requirements in 34 CFR Part 668.7. ("Satisfactory academic progress" is explained in greater detail in Chapter Two of this *Handbook*.)

Consideration of need and low-income status

Federal Pell Grant recipients with the greatest financial need receive priority consideration in receiving aid under this component. In determining the greatest financial need, a state may rank students according to their EFCs or rank them according to their need as prioritized under the state's criteria for low-income students. (If the state chooses to use its own criteria for ranking purposes, those criteria must first be approved by the Department of Education.)

PACKAGING AID

Tuition assistance under this program is not to be considered for the purpose of awarding SFA aid, except that the total of SFA aid and scholarship aid under this component awarded to the student cannot exceed the student's cost of attendance.

ALLOTMENT TO STATES

Federal share of allotment used for early intervention component

Under full funding, the program statute authorizes $200 million for both components of the NEISP Program. However, in a Fiscal Year when funding is less than $50 million, as is the case for 1995-96, the Secretary allots funds to states on a competitive basis. (See page 34 of this section.)

A state may not use less than 25 percent or more than 50 percent of its federal allotment for the early intervention component of the NEISP Program. The 50 percent maximum may be waived for a state that can demonstrate that it has other ways of providing students' tuition assistance.

Any federal funds not used during a fiscal year may be reallotted by the Secretary.

EVALUATION

Each participating state must conduct an evaluation of its early intervention component on a biennial basis according to standards and requirements established by the Secretary. The report summarizes and evaluates the state's activities and the performance of its student participants.

ADDITIONAL INFORMATION

Since the NEISP Program for 1995-96 will be run as a discretionary grant program, not all states will be participating. Therefore, there is no listing of agencies in Section Five of this chapter as there is for each of the other programs covered in Chapter Nine. If you have any questions about NEISP Program procedures, you should call the program office at (202) 708-4607.

SECTION FIVE: DIRECTORY OF STATE AGENCIES

Listed below for each state, are the agencies responsible for administering the SSIG, Paul Douglas Teacher Scholarship, and the Robert C. Byrd Honors Scholarship Programs in that state, along with a contact person for each agency. The SSIG agency is always listed first, followed by the Douglas agency (in states where the Douglas program operates), and lastly, the Byrd agency. In many of the states, the SSIG and Douglas programs are administered by the same agency, while the Byrd program is administered by either the State Education Agency (SEA) or a different agency. The contact for each agency is usually the program official, designated as such with a "(P)" in front of his or her name. In a few instances, when there is no program official, the official listed will be the senior agency official. That person will be designated as such with an "(A)" in front of his or her name.

ALABAMA

Alabama Commission on Higher Education
Suite 205, 3465 Norman Bridge Road
Montgomery, Alabama 36105-2310
TEL: (334) 281-1921

SSIG And Douglas Contact:

(P) Dr. Jan B. Hilyer
Assistant Director
Student Assistance

Byrd Program:

State Department of Education
Gordon Persons Office Building
50 North Ripley Street
Montgomery, Alabama 36130-3901

Byrd Contact:

(P) Ms. Rosemary Mobley
TEL: (205) 242-8082

ALASKA

Alaska Commission on Postsecondary Education
3030 Vintage Boulevard
Juneau, Alaska 99801-7109
TEL: (907) 465-2962

SSIG and Douglas Contact:

(P) Ms. Diane Barrans
Programs Director

Byrd Program:

State Department of Education
Goldbelt Place
801 West 10th Street, Suite 200
Juneau, Alaska 99801-1894

Byrd Contact:

(P) Ms. Rosemary Hagevig
Program Coordinator
TEL: (907) 465-8715

ARIZONA

Arizona Commission for Postsecondary Education
2020 North Central Ave., Suite 275
Phoenix, Arizona 85004-4503

SSIG and Douglas Contact:

(P) Dr. Louie R. Bustillo
Program Compliance Officer
TEL: (602) 229-2593

Byrd Program:

State Department of Education
1535 West Jefferson
Phoenix, Arizona 85007

Byrd Contact:

(P) Ms. Barbara Baum
Special Project Assistant
TEL: (602) 542-2147

ARKANSAS

Arkansas Department of Higher Education
114 East Capitol
Little Rock, Arkansas 72201-3818
TEL: (501) 324-9300

SSIG Contact:

(P) Mr. Phil Axelroth
Assistant Coordinator of
Student Aid

Douglas Contact:

(P) Ms. Lillian K. Williams
Assistant Coordinator of
Student Financial Aid

Byrd Program:

Arkansas Department of Education
4 State Capitol Mall, Room 304A
Little Rock, Arkansas 72201-1071
TEL: (501) 682-4474

(P) Dr. Charles D. Watson
Math and Special Projects
Specialist

CALIFORNIA

California Student Aid Commission
Suite 500, P.O. Box 510845
Sacramento, California 94245-0845
TEL: (916) 445-0880

SSIG Contact:

(P) Ms. Rebecca Stilling
Deputy Director

Douglas Contact:

(P) Mr. Robert Ruiz
Initial Processing Manager
TEL: (916) 322-2294

Byrd Program:

California Student Aid Commission
1515 S Street, North Bldg.
Suite 500, P.O. Box 510845
Sacramento, California 94245-0621

(P) Ms. Cathy Mistler
Coordinator, Specialized Programs
TEL: (916) 322-8801

COLORADO

Colorado Commission on Higher Education
Colorado Heritage Center
1300 Broadway, 2nd Floor
Denver, Colorado 80203
TEL: (303) 866-2723

SSIG and Douglas Contact:

(P) Mr. John P. Ceru
Administrator,
Colorado Student Aid Programs

Byrd Program:

State Department of Education
201 East Colfax Avenue
Denver, Colorado 80203-1705

Byrd Contact:

(P) Ms. Betty Hinkle
Executive Director, Office of
Federal/State Program Services
TEL: (303) 866-6779

CONNECTICUT

SSIG, Douglas, & Byrd Program:

Connecticut Department of Higher Education
61 Woodland Street
Hartford, Connecticut 06105-2391
TEL: (203) 566-3910

(P) Mr. John J. Siegrist
Senior Associate

DELAWARE

Delaware Higher Education Commission
Carvel State Office Building
820 North French Street, 4th Floor
Wilmington, Delaware 19801
TEL: (302) 577-3240

SSIG Contact:

(P) Ms. Nancy C. Holm
Associate Director

Douglas Contact:

(P) Mr. William Koffenberger
Higher Education Analyst

Byrd Program:

State Department of Public Instruction
Townsend Building, #279
Federal & Lockerman Streets
Post Office Box 1402
Dover, Delaware 19903-1402

Byrd Contact:

(P) Ms. Marcia Reese
Education Associate
Postsecondary Program Approval
TEL: (302) 739-4681

DISTRICT OF COLUMBIA

Department of Human Services
Office of Postsecondary Education, Research and Assistance
2100 Martin Luther King, Jr. Avenue, SE
Suite 401
Washington, D.C. 20020

SSIG Contact:

(P) Ms. Jean T. Green
Program Manager (Acting)
D.C. SSIG Section
TEL: (202) 727-3688

Douglas Contact:

(P) Ms. Laurencio O. Henderson
Student Financial Assistance Specialist
TEL: (202) 727-3685

Byrd Program:

District of Columbia Public Schools
Division of Student Services
450 Lee Street, N.E.
Washington, D.C. 20019
TEL: (202) 724-4934

(P) Ms. Annabell Strayhorn
Director, Student Affairs Branch

FLORIDA

Florida Department of Education
Student Financial Assistance
1344 - Florida Education Center
Tallahassee, Florida 32399-0400

SSIG and Douglas:

(P) Dr. M. Elizabeth Sweeney
Director of State Programs
TEL: (904) 488-1034

Byrd Contact:

(P) Ms. Marsha Colston
TEL: (904) 488-1034

GEORGIA

Georgia Student Finance Commission
State Loans & Grants Division
2082 East Exchange Place
Suite 245
Tucker, Georgia 30084
TEL: (404) 414-3082

SSIG and Douglas Contact:

(P) Mr. William A. Flook
Program Officer

Byrd Program:

State Department of Education
2054 Twin Towers East
205 Butler Street
Atlanta, Georgia 30334
TEL: (404) 656-5812

(P) Mr. Lonnie Love
Administrator

HAWAII

Hawaii State Postsecondary Education Commission
2444 Dole Street, Room 209
Honolulu, Hawaii 96822-2394
TEL: (808) 956-8213

SSIG Contact:

(P) Mr. Carl H. Makino
Administrative Assistant to
the Commission

DOUGLAS PROGRAM:

Not participating

BYRD PROGRAM:

Hawaii Department of Education
2530 10th Avenue
Room A 12
Honolulu, Hawaii 96816
TEL: (808) 733-9103

(P) Ms. Eloise Lee
Administrator, Byrd Scholarship
Program

IDAHO

IDAHO BOARD OF EDUCATION
P.O. Box 83720
Boise, Idaho 83720-0037
TEL: (208) 334-2270

SSIG Contact:

(P) Mr. Keith Hasselquist
Chief Fiscal Officer

Douglas Contact:

(P) Mr. Bill Hargrove
Public Affairs Officer

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
650 West State Street
Boise, Idaho 83720

Byrd Contact:

(P) Ms. Sally Keister Tiel
Coordinator
TEL: (208) 334-2113

ILLINOIS

ILLINOIS STUDENT
ASSISTANCE COMMISSION
1755 Lake Cook Road
Deerfield, Illinois 60015-5209
TEL: (708) 948-8500

SSIG Contact:

(P) Ms. Christine Peterson
Director, Program Services

Douglas Contact:

(P) Dr. Catherine E. Whitcomb
Manager, Scholarships & Grant Service

BYRD PROGRAM:

STATE BOARD OF EDUCATION
100 North First Street
Springfield, Illinois 62777

Byrd Contact:

(P) Ms. Frances Vanden-Henvel
TEL: (708) 948-8500

INDIANA

State Student Assistance Commission of Indiana
150 West Market Street
Suite 500
Indianapolis, Indiana 46204-2811
TEL: (317) 232-2350

SSIG Contact:

(A) Mr. Timothy C. Joyce
Executive Director

Douglas Contact:

(P) Ms. Yvonne Heflin
Director of Special Programs

Byrd Program:

Indiana Department of Education
Room 229 - State House
Center for School Improvement
& Performance
Indianapolis, Indiana 46204-2798
TEL: (317) 232-2305

(P) Ms. Yvonne Heflin
Director of Special Programs

IOWA

Iowa College Student Aid Commission
914 Grand Avenue, Suite 201
Des Moines, Iowa 50309-2824
TEL: (800) 383-4222

SSIG Contact:

(P) Mr. John W. Heisner
Director, Program Operations/
Financial Aid Services

Douglas Contact:

(P) Ms. Laurie A. Wolf
Director of Special Projects

Byrd Program:

State Department of Education
Grimes State Office Building
Bureau of Instruction & Curriculum
Des Moines, Iowa 50319-0146

(P) Ms. Laurie Wolfe
Director of Special Projects
TEL: (515) 242-6716

KANSAS

Kansas Board of Regents
700 S. W. Harrison
Suite 1410
Topeka, Kansas 66603-3760
TEL: (913) 296-3421

SSIG and Douglas Contact:

(P) Ms. N. Christine Crenshaw
Director of
Student Financial Aid

Byrd Program:

State Department of Education
Kansas State Education Bldg.
120 East Tenth Street
Topeka, Kansas 66612-1103
TEL: (913) 296-4876

(P) Mr. Bob Gast
Director

KENTUCKY

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601-4323
TEL: (800) 928-8926

SSIG and Douglas Contact:

(P) Ms. Joyce A. Bryan
Director, Student Aid Programs

Byrd Program:

State Department of Education
500 Mero Street
1919 Capital Plaza Tower
Frankfort, Kentucky 40601
TEL: (502) 564-3421

(P) Ms. Donna Melton
Program Coordinator

LOUISIANA

Louisiana Student Financial Assistance Commission
Office of Student Financial Assistance
Post Office Box 91202
Baton Rouge, Louisiana 70821-9202

SSIG and Douglas Contact:

(P) Ms. Winona Walker Kahao
Director, Scholarships
and Grants Division
TEL: (800) 259-5626

Byrd Program:

State Department of Education
Post Office Box 94064
626 North 4th Street, 12th Floor
Baton Rouge, LA 70804-9064
TEL: (504) 342-2098

(P) Ms. Phyllis Trisler
Administrative Assistant

MAINE

Finance Authority of Maine
Post Office Box 949
Augusta, Maine 04333-0949
TEL: (207) 287-2183

SSIG Contact:

(P) Ms. Nancy E. Wasson
Program Manager

Douglas Contact:

(P) Mrs. Helen Renko-Flanagan
Program Manager

Byrd Program:

Finance Authority of Maine
Higher Education Services
Maine Education Assistance Division
State House Station #119
One Weston Court
Augusta, Maine 04330
TEL: (207) 287-2183

(P) Mrs. Helen Renko-Flanagan
Program Administrator

MARYLAND

Maryland Higher Education Commission
Jeffrey Building
16 Francis Street
Annapolis, Maryland 21401-1781
TEL: (410) 974-5370

SSIG Contact:

(P) Ms. Jane Hickey
Associate Director

Douglas Contact:

(A) Mr. Leslie Bennett
Program Manager
Non-Need-based Grants
TEL: (410) 974-5370

Byrd Program:

Maryland State Department of Education
200 West Baltimore Street
Baltimore, Maryland 21201-2595

Byrd Contact:

(P) Mr. William Cappe
Program Administrator
TEL: (410) 767-0480

MASSACHUSETTS

SSIG and Douglas Programs:

Massachusetts Higher Education Coordinating Council
330 Stuart Street
Boston, Massachusetts 02116
TEL: (617) 727-9420

(P) Ms. Clantha McCurdy
Director, State Scholarship Office

Byrd Program:

State Department of Education
350 Main Street
Malden, Massachusetts 02148-5023
TEL: (617) 388-3300

(P) Mr. Jack Conlon
Education Specialist III

MICHIGAN

Michigan Higher Education Assistance Authority
Office of Scholarships and Grants
Post Office Box 30462
Lansing, Michigan 48909-7962
TEL: (517) 373-3394

SSIG and Douglas Contact:

(P) Ms. Jean Maday
Director, Scholarship & Grants Programs

Byrd Program:

State Department of Education
Post Office Box 30008
608 West Allegan Street
Lansing, Michigan 48909
TEL: (517) 373-3394

(P) Ms. Jean Maday
Director, Scholarships & Grants Programs

MINNESOTA

Minnesota Higher Education Coordinating Board
Suite 400, Capitol Square Bldg.
550 Cedar Street
St. Paul, Minnesota 55101-2292

SSIG Contact:

(P) Ms. Virginia Dodds
Manager, State Grant Programs
TEL: 1 (800)-657-3866

Douglas Contact:

(P) Ms. Mary Lou Dresbach
Administrative Associate, Financial Aid Division
TEL: (612) 296-3974

Byrd Program:

State Department of Education
712 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
TEL: (612) 282-5088

(P) Ms. Mara Dehn-Altstatt
Grant Analyst
Office, State, and Federal Programs

MISSISSIPPI

Mississippi Postsecondary Education Financial Assistance Board
3825 Ridgewood Road
Jackson, Mississippi 39211-6453
TEL: (601) 982-6663

SSIG Contact:

(P) Mr. Larry Blankenship
Assistant Director

Douglas Contact:

(P) Ms. Kay S. Coleman
Program Administrator

Byrd Program:

State Department of Education
Post Office Box 771
550 High Street, Room 501
Jackson, Mississippi 39205-0771
TEL: (601) 359-3768

(P) Mr. Tony Webster
Education Consultant

MISSOURI

Missouri Coordinating Board for Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109-5717
TEL: (314) 751-2361

SSIG and Douglas Contact:

(P) Mr. Dan Peterson
Senior Associate, Student Financial Aid Programs

Byrd Program:

State Department of Elementary and Secondary Education
Post Office Box 480
205 Jefferson Street, Sixth Floor
Jefferson City, Missouri 65102
TEL: (314) 751-2931

(P) Dr. Celeste Ferguson
Assistant Commissioner

MONTANA

SSIG Program:

Montana University System
2500 Broadway
Helena, Montana 59620-3103
TEL: (406) 444-6570

(P) Mr. William J. Lannan
Director of Special Projects

Douglas Program:

Montana University System
Montana Guaranteed Student
Loan Program
2500 Broadway
Helena, Montana 59620-3101
TEL: (406) 444-6570

(P) Ms. Wendy Kliment
Program Assistant

Byrd Program:

State Office of Public Instruction
State Capitol, Room 106
Helena, Montana 59620

Byrd Contact:

(P) Mr. Michael Hall
Gifted and Talented Education
Specialist
TEL: (406) 444-4422

NEBRASKA

SSIG Program:

Coordinating Commission
for Postsecondary Education
Post Office Box 95005
Lincoln, Nebraska 68509-4987

(P) Mrs. Jean Hulbert
Assistant Fiscal Officer
TEL: (402) 471-2847

Douglas and Byrd:

Nebraska Department of Education
Post Office Box 94987
301 Centennial Mall South
Lincoln, Nebraska 68509-4987

Douglas and Byrd Contact:

(P) Dr. Dean F. Bergman
Program Administrator
TEL: (402) 471-2784

NEVADA

Nevada Department of Education
400 West King Street
Capitol Complex
Carson City, Nevada 89710

SSIG Contact:

(P) Ms. Susan L. Lloyd
Coordinator, Nevada Student
Incentive Grant Program
TEL: (702) 687-5915

Douglas Program:

Not participating

BYRD PROGRAM

STATE DEPARTMENT OF EDUCATION
400 West King Street
Capitol Complex
Carson City, Nevada 89710

Byrd Contact:

(P) Ms. Susan Lloyd
TEL: (702) 687-5915

NEW HAMPSHIRE

NEW HAMPSHIRE POSTSECONDARY EDUCATION COMMISSION
2 Industrial Park Drive
Concord, New Hampshire 03301
TEL: (603) 271-2555

SSIG and Douglas Contact:

(P) Ms. Judith Knapp
Student Financial Assistance
Coordinator

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
State Office Park South
101 Pleasant Street
Concord, New Hampshire 03301
TEL: (603) 271-2632

(P) Mr. Robert T. Kennedy
Administrator

NEW JERSEY

STATE OF NEW JERSEY
OFFICE OF STUDENT FINANCIAL ASSISTANCE
4 Quakerbridge Plaza CN 540
Trenton, New Jersey 08625
TEL: (609) 588-3225

SSIG and Douglas Contact:

(P) Mr. Dennis Levy
Acting Director

BYRD PROGRAM:

STATE DEPARTMENT OF EDUCATION
225 West State Street
Trenton, New Jersey 08625-0500
TEL: (609) 984-6409

(P) Ms. Susan E. Sliker
Program Administrator

NEW MEXICO

SSIG PROGRAM:

NEW MEXICO COMMISSION ON HIGHER EDUCATION
1068 Cerrillos Road
Santa Fe, New Mexico 87501-4295
TEL (505) 827-7383

(A) Dr. Bruce Hamlett
Director

DOUGLAS PROGRAM:

NEW MEXICO EDUCATIONAL ASSISTANCE FOUNDATION
Post Office Box 27020
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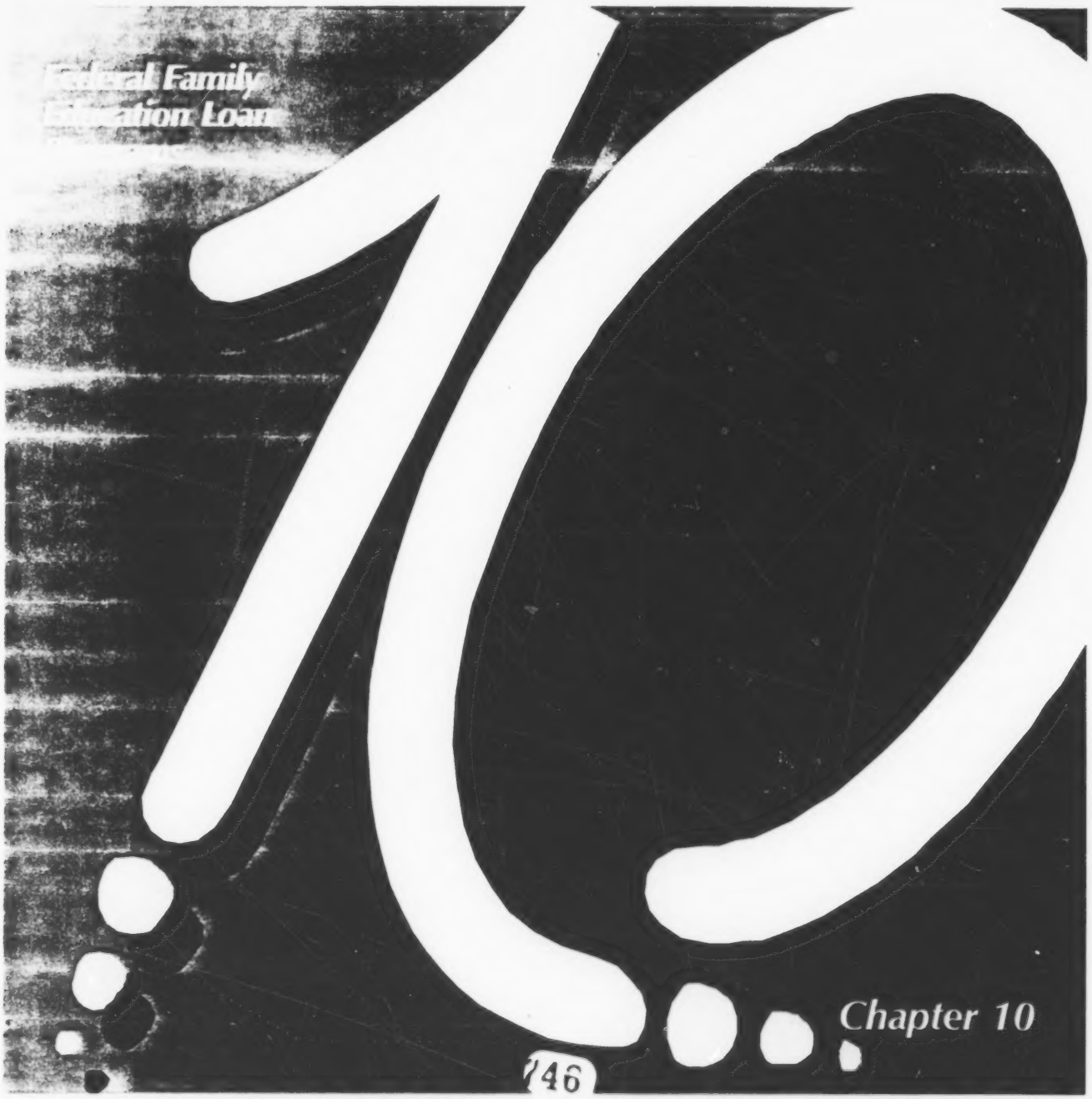
The Federal Student Financial Aid Handbook 1995-96



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INTRODUCTION

Part B of Title IV of the Higher Education Act of 1965 created the guaranteed student loan programs. The Higher Education Amendments of 1992 (P.L. 102-325) reauthorized the Act and renamed the guaranteed student loan programs the Federal Family Education Loan (FFEL) Program. Individual program names have been changed to Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS loans, and Federal Consolidation Loans. These programs make long-term loans available to students attending institutions of higher education, vocational, technical, business, and trade schools, and some foreign schools.

State or private nonprofit guaranty agencies insure FFEL Program loans and are reimbursed by the federal government for all or part of the insurance claims they pay to lenders. The guarantee replaces the security or collateral usually required for a long-term consumer loan.

NOTE:
Although all guaranty agency programs must meet the federal requirements discussed in this chapter, *individual guaranty agencies may have additional requirements.* You can obtain specific information about a guaranty agency's procedures by contacting that agency. Appendix A of this chapter contains a list of guaranty agencies and their addresses and telephone numbers.

Stafford Loans are available to undergraduate and graduate students. Formerly, the Federal Supplemental Loans for Students (SLS) Program provided loans for graduate or professional students and for independent undergraduates; however, the SLS Program has been merged into the unsubsidized Stafford Loan Program. While many of the SLS Program terms and conditions will be available through unsubsidized Stafford Loans, no new SLS loans may be made for a period of enrollment beginning on or after July 1, 1994. See Sections Three and Four of this

chapter for more information affecting the elimination of the SLS Program. PLUS loans are for parents of dependent students. Stafford, SLS, Federal Insured Student Loans (FISLs), Federal Perkins Loans, PLUS loans, Health Education Assistance Loans, and Health Professions Student Loans may be consolidated, if the borrower meets certain other conditions (discussed in Section Five). For a spousal (joint) consolidation, the borrower and his or her spouse must meet these conditions.

New legislation and changes to FFEL Program regulations, and other points of special interest, are highlighted in the chapter through use of margin notes and graphics. When "Dear Colleague" letters are used to explain changes in the FFEL programs, reference to the appropriate Dear Colleague letter is made in the text. For example, a "Dear Colleague" letter (GEN-94-3, January 1994) provided information about the delivery of federal student financial aid to schools in areas designated as natural disaster areas due to the earthquake in California.

SUMMARY OF NEW REQUIREMENTS AND INITIATIVES

Two new major pieces of legislation affect the FFEL Program for the 1994-95 academic year and subsequent academic years. The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66), sometimes known as the Student Loan Reform Act, made significant changes to the FFEL Program, and set requirements for the transition of the FFEL Program to the Federal Direct Student Loan (FDSL) Program. The Higher Education Technical Amendments of 1993 (P.L. 103-208) also made major changes to the FFEL Program by clarifying and expanding provisions of the Higher Education Amendments of 1992.

The U.S. Department of Education (the Department) has issued several regulations in the past year so that provisions of these laws can be implemented. In most cases, the publication dates and names of the regulations, published as **Federal Register** Final Rules, are referenced throughout this chapter of the Handbook.

Please note that a "work in progress" symbol

is used in the margin to alert you to provisions requiring further regulation.

The William D. Ford Federal Direct Loan Program

The Student Loan Reform Act of 1993 established a new loan program, the William D. Ford Federal Direct Loan (Direct Loan) Program. Participation in the program began with the 1994-95 academic year with 5 percent of new Direct Loan and FFEL volume, and increased substantially to 40 percent of new loan volume during the 1995-96 academic year. The percentage of Direct Loan volume will then increase gradually over the next several academic years. A **Federal Register** notice published on January 4, 1994 outlined the operations and procedures during the first year of the program. A notice published July 1, 1994 explained the repayment options and provisions available under the new program, including a description of the Federal Direct Consolidation Loan Program. A notice published December 22, 1994 superseded the July 1 provisions regarding income-contingent repayment for the first year of the program. Finally, a notice published December 1, 1994 provides program guidance for the second and subsequent years of the program (1995-96 and beyond).

Because the Direct Loan Program is separate from the FFEL Program, separate materials have been prepared for schools participating in the program, and no further discussion of Direct Loans will be provided here. If your school would like more information about the Direct Loan Program, you may write to:

U.S. Department of Education
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Direct Loan Task Force, Room 4025
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Recent FFEL Program changes

Other FFEL Program changes to note include the following:

SECTION ONE: ELIGIBILITY

- The provisions that enable a parent with an adverse credit history to secure an endorser without an adverse credit history in order to qualify for a PLUS Loan were published as an FFELP Final Rule on November 29, 1994. Definition of adverse credit

history was provided in a final regulation published June 28, 1994. Please refer to pages 10-11 and 10-12.

- The Department has developed regulations for programs of 600 clock hours or less; these provisions were published April 29, 1994 as an Interim Final Rule governing both Student Assistance General Provisions and the FFEL Program. Please refer to pages 10-13 and 10-14.

SECTION TWO: FEDERAL STAFFORD LOANS

- To account for the effect of a variable interest rate on a student's outstanding debt, which must be repaid within the maximum repayment period, a lender may either make adjustments in each borrower's monthly payment amount or must grant a mandatory administrative forbearance as described on pages 10-23 and 10-62 of the Handbook, and in the June 29, 1994 FFELP Final Rule (effective July 1, 1995).

  The length of time for which a forbearance can be granted under this provision has been increased to three years under a standard or graduated repayment schedule, and to five years under an income-sensitive repayment schedule. Please refer to page 10-62 of Section Six, "Comparing Loan Programs".

- Changes have been made to the definition of economic hardship deferment as a result of the provisions stated in the FFELP Final Rule published November 29, 1994 and the Improving America's Schools Act (IASA) enacted October 20, 1994. Details are provided on pages 10-35 to 10-36 after the margin note "Deferments for new borrowers with loans disbursed on or after July 1, 1993". The definition is also found on pages 10-72 to 10-73 of Section Six, "Comparing Loan Programs". This new definition of economic hardship becomes effective July 1, 1995.

- New timeframes have been established for determination of student withdrawal dates. The revised section 668.22 can be found in the November 29, 1994 General Provisions and FFELP Final Rule (effective date July 1, 1995). 34 CFR 668.22(j), "Refund dates," refers to students who have officially withdrawn, have dropped out, or have failed to return from an approved or unapproved leave of absence.

  The November 29, 1994 FFELP Final Rule (a different regulation than the one above) references the General

Provisions section; it states that a school must follow the procedures in 34 CFR 668.22 to determine student withdrawal and refund dates, and to report withdrawal dates to lenders. Its effective date is also July 1, 1995.

- Finally, please note that the FFELP Final Rule published November 29, 1994 ensures reasonable comparability between FFEL Program and Direct Loan Program regulatory provisions.

SECTION FIVE: LOAN REFINANCING AND CONSOLIDATION

- On June 29, 1994, the Department issued a regulation providing detailed guidance to lenders concerning standard, graduated, or income-sensitive repayment of loans. Please refer to page 10-29 of Section Two, and page 10-53.

SECTION SIX: COMPARING LOAN PROGRAMS

- Provisions have been added that lenders must grant mandatory forbearance to borrowers eligible for forgiveness of a loan under the Federal Stafford Loan Forgiveness Demonstration Program (if that program is funded), and to borrowers eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense.

  Mandatory administrative forbearance must be granted to borrowers or endorsers residing in a geographical area which has been designated a state or federal disaster area. It must also be granted to borrowers or endorsers subject to exceptional circumstances, such as a local or national emergency or a military mobilization.

  Forbearances described in the previous two paragraphs are also listed on pages 10-61 and 10-62.

  The new provisions described above are effective July 1, 1995.

- Consistent with the Bankruptcy Reform Act of 1994 enacted October 22, 1994, a borrower whose FFEL loan was previously discharged in bankruptcy is no longer required to reaffirm his or her loan obligation. Similarly, the Department no longer

requires borrowers to reaffirm a debt previously cancelled due to a determination of permanent and total disability. An explanation of changes in reaffirmation procedures is provided on page 10-63 of the Handbook.

- The Department published a Final Rule dated April 29, 1994 which clarified the eligibility criteria and application procedures for a closed school or false certification discharge. Please refer to page 10-64 of the Handbook.

- For the purposes of consolidating a defaulted loan, the number of payments to make under a "satisfactory repayment arrangement" have been reduced from six to three (effective July 1, 1995).

  For clarification of what constitutes a "reasonable and affordable payment" for reinstatement of SFA eligibility or for loan rehabilitation, please refer to the section on "Loan Rehabilitation" on pages 10-68 and 10-69 of the Handbook.

  Guidance on loan rehabilitation and on reinstatement of SFA eligibility was provided in an FFELP Final Rule published June 28, 1994.

SECTION EIGHT: PAYMENT TO THE STUDENT

- New timeframes regarding the disbursement of FFEL loans by EFT or by master check are given on pages 10-95 and 10-96 of the Handbook. Regulatory guidance was provided in a Student Assistance General Provisions and FFELP Final Rule published December 1, 1994 (effective date July 1, 1995).

  New rules regarding timeframes for second and subsequent disbursements were provided in the same December 1 regulation cited above. For these disbursements, a school may pay directly, or credit the account of, an enrolled student no earlier than ten days before the first day of the enrollment period (semester, term, or other period of enrollment for which the disbursement is to be made). These procedures are explained on page 10-96.

SECTION NINE: DEFAULT REDUCTION MEASURES

- Effective since October 1, 1994, before a final cohort default rate for a school is calculated, each guaranty agency that has insured loans for current or former students for a school must give that school a reasonable opportunity to review and correct errors in the information it provided to the guaranty agency. Please refer to page 10-102. Guidance concerning timeframes for appeal are provided in the November 29, 1994 General Provisions regulation.

- It is now possible for institutions to file default rate appeals based on allegations of improper loan servicing and collection. The ability to make such an appeal was contained in the Student Assistance General Provisions Interim Final Rule published on April 29, 1994, effective July 18, 1994. Comprehensive regulatory guidance was published as a Student Assistance General Provisions Final Rule dated November 29, 1994. More information on this type of appeal is provided on pages 10-112 and 10-113.

SECTION ELEVEN: ADDITIONAL REQUIREMENTS AND RESPONSIBILITIES OF SCHOOLS

- New refund policy timeframes are provided on page 10-130. As stated in the November 29, 1994 FFELP Final Rule, a school may now make a refund to a lender within 60 days after the student's withdrawal date has been determined under 34 CFR 668.22. (The timeframe had previously been reduced from 60 days to 30 days.) The revised section 668.22 can be found in the November 29, 1994 General Provisions and FFELP Final Rule (a different regulation than the one referred to above). 34 CFR 668.22 (j), "Refund dates", refers to students who have officially withdrawn, have dropped out, or have failed to return from an approved or unapproved leave of absence.

  The November 29, 1994 FFELP Final Rule references the General Provisions section; it states that a school must follow the procedures in 34 CFR 668.22 to determine student withdrawal and refund dates, and to report withdrawal dates to lenders.

  Both of the regulations referred to above have an effective date of July 1, 1995.

GENERAL TOPIC SUMMARY OF EACH SECTION

Section One of this chapter covers borrower eligibility criteria of particular interest to students with FFEL Program loans; more detail on general eligibility requirements is provided in Chapter Two of the *Handbook*.

Sections Two through Five cover the FFELP provisions, including a short section (Section Five) on loan consolidation and refinancing.

Section Six concentrates on elements common to all FFEL programs, and includes some program differences.

Section Seven takes you step-by-step through the loan application process. Section Eight covers payment of loan proceeds. Section Nine focuses on default reduction measures, especially those requirements that are mandatory for schools with default rates above a given level.

Section Ten covers the requirements of loan counseling and offers suggestions about how loan information might be presented to students. Finally, Section Eleven covers those responsibilities and requirements of schools that have not been addressed in previous sections.

SECTION ONE: ELIGIBILITY

In general, a student must be enrolled at least half time as a regular student in an eligible program and must maintain satisfactory academic progress in order to be eligible for a Federal Stafford or a Federal PLUS loan. Chapters Two and Three of the *Handbook* cover the eligibility requirements of students and schools in considerable detail; only those eligibility requirements of special interest to Stafford Loan and PLUS borrowers are noted here.

BORROWER ELIGIBILITY FOR FEDERAL STAFFORD AND FEDERAL PLUS LOANS

While eligibility criteria for students participating in all student financial assistance (SFA) programs are generally the same, there are some significant differences in eligibility requirements for Stafford Loans and PLUS that should be mentioned:

- A member of a religious community may be eligible for a Stafford Loan or PLUS. (Members of religious communities, in most cases, are not eligible for other SFA programs.) The school makes a determination of eligibility based on the requirements of Section 682.301(a)(2) of the FFEL Program regulations.

- A student must meet the U.S. citizenship requirements explained in 34 CFR 668.7 of the Student Assistance General Provisions regulations. A parent borrower must also meet these requirements.

- A student is *ineligible* to receive Perkins or Stafford Loans while in a medical internship or residency program—unless the internship is part of the school's degree program—and a parent

may not borrow a PLUS for a student in such a program. This restriction became effective January 1, 1990, for any loan proceeds not delivered to the borrower by that date; it does *not* apply to students in dental internship programs.

For Stafford and PLUS, test required for students without h.s. diploma or GED

- In general, a student must have a high school diploma or its recognized equivalent, or a General Education Development certificate (GED), in order to be eligible for a Stafford Loan, or for a parent to borrow a PLUS for the student. The Higher Education Technical Amendments of 1991 (P.L. 102-26) require students *without* a high school diploma (or equivalent) or a GED to pass a test approved by the U. S. Department of Education in order to be eligible for a Stafford Loan or for a parent to borrow a PLUS for the student. This provision became effective July 1, 1991. For more information on the testing process, see Chapter Two of the *Handbook*.

  A student may now gain eligibility through a determination that he or she has the ability to benefit from an institution's program, in accordance with a state process approved by the Department. Ability to benefit procedures are described in Part 668.7(b) of the General Provisions regulations.

WORK IN PROGRESS

  A final rule is being developed by the Department on provisions regarding ability to benefit. For more information on student eligibility, please consult Chapter Two of the Handbook.

- As with other SFA programs, if a student owes a refund on an SFA grant, or is in default on a loan made under the Stafford Loan, SLS, PLUS, Income Contingent Loan, or Federal Perkins Loan (formerly National Direct Student Loan) programs—or on a Federal Consolidation Loan—for attendance at *any* school, he or she is not eligible for a Stafford Loan. The parents of such a student may not borrow a PLUS loan for him or her. In addition, if a parent is in default or owes a refund to any SFA program, he or she may not take out a PLUS loan for any of his or her children in postsecondary education.

  An FFEL written off as uncollectible and closed out by the Department is still considered to be a defaulted loan for purposes of borrower eligibility. Certification that the borrower is not in default and does not owe a refund is a requirement for which the school is responsible, and is discussed under "Estimated financial assistance" in Section Seven. More information on student certification requirements is found in Chapter Two of the *Handbook*. See "Loan rehabilitation" in

Section Six for information on regaining eligibility for SFA programs once a borrower has defaulted.

- A determination of Federal Pell Grant eligibility or ineligibility must be made for undergraduate subsidized and unsubsidized Stafford Loan applicants if the school participates in the Pell Grant Program. This requirement does not apply to students for whom a parent is seeking a PLUS. In addition, a determination of need for a Stafford Loan must be made for an unsubsidized Stafford Loan applicant if the applicant is determined to have need for a subsidized Stafford Loan of $200 or more. More detail on eligibility determination is provided in Section Seven under "Estimated financial assistance" and "Additional factors in determining loan eligibility."

For unsubsidized Stafford applicant: need for Stafford must be determined

- There are two exceptions to the general rule that an SFA recipient must be enrolled or accepted for enrollment in a degree or certificate program:

    1) An otherwise eligible student may apply for a Stafford Loan (and the student's parent may borrow under the PLUS Program) for a single consecutive 12-month period, *if* the school has determined that the course work is necessary in order for the student to enroll in a degree or certificate program and the student is enrolled at least half time; and

    2) A student enrolled at least half time in a program required by a state for teacher certification or recertification at the elementary or secondary level may apply for a Stafford Loan without being enrolled as a regular student (and the student's parent may apply for a PLUS). The school's records must indicate that the courses taken are those required by the state where the student will be teaching. (See Chapter Two of the *Handbook* for more detail on these two exceptions to student eligibility requirements.)

Stafford and PLUS permitted for non-degree teacher certification or recertification

Incarcerated students are no longer eligible to receive Stafford Loans.

An eligible parent borrower for a PLUS Loan is a student's natural mother or father, adoptive parent, or legal guardian. If a stepparent is an adoptive parent or a legal guardian, he or she can borrow under PLUS. Effective July 1, 1995, a parent with an adverse credit history may secure an endorser without an adverse credit history in order to qualify for a PLUS loan.

Parent with an adverse credit history may secure an endorser

Regulatory criteria for determining an adverse credit history have been established by the Department. The provision that enables a parent with an adverse credit history to secure an endorser without adverse credit was published November 29, 1994. The definition of adverse credit history was provided in a final regulation published June 28, 1994.

Upon obtaining a credit history of the applicant (or applicants, if both parents are applying as endorsers), the lender should consider an applicant to have an adverse credit history if

- the applicant is 90 days or more delinquent on the repayment of any debt; or

- the applicant has been determined to be in default on a debt, the applicant's debts have been discharged in bankruptcy, or the applicant has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an SFA debt during the five years preceding the date of the credit report.

Regarding the criteria listed to determine adverse credit history, a lender may establish a more stringent definition if it chooses to do so.

Please note that a parent cannot be rejected for a PLUS loan simply on the basis of the absence of a credit history. The absence of a credit history cannot be construed as an adverse credit history.

INSTITUTIONAL ELIGIBILITY

In order to participate in the Stafford or PLUS loan programs, a school must be an institution of higher education as defined in Section 481 of the Higher Education Amendments of 1992. As a result of changes in the amendments, a hospital or health-care facility offering a one-year program for graduates of accredited health professions programs is no longer an eligible school, unless it meets one of the other definitions of an eligible school found in Part 600 of the Institutional Eligibility regulations. Definitions of eligible institutions are found in Chapter Three of the *Handbook*.

A foreign school comparable to an institution of higher education can be eligible to participate in the Stafford Loan or PLUS programs, if it is approved by the Department of Education. However, an eligible student may receive financial aid for a study abroad program approved for academic credit by the home school, regardless of whether the study is at an eligible foreign school, or whether the study is required as part of the student's degree program.

Restrictions on correspondence study

Only a school accredited as an institution of higher education offering a graduate level program may certify FFEL loans at the graduate level. A school offering programs *exclusively* for study by correspondence is not eligible to participate in the Stafford Loan or PLUS programs. Note that a student enrolled in a correspondence course must be enrolled in an associate, bachelor, or graduate degree program in order to receive SFA assistance.

New "academic year" definition

The Higher Education Amendments of 1992 made changes in program eligibility standards and redefined "academic year," which may affect whether a school's program meets FFEL Program eligibility requirements. An academic year is defined as a minimum of 30 weeks of instruction during which a full-time student is expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. For an undergraduate Stafford Loan borrower who has not completed the first year of a program of study, the definition is effective for loans certified on or after October 1, 1992. For all other Stafford Loan borrowers, and for other SFA programs, the definition is effective July 1, 1993.

On a case-by-case basis, the Secretary may grant to an institution a longterm reduction in the minimum of 30 weeks of instructional time for an academic year. This special exception is set forth in a regulation published November 29, 1994 governing both Student Assistance General Provisions and the FFEL Program.

The Department has also developed regulations for programs of 600 clock hours or less; these provisions were published April 29, 1994 as an Interim Final Rule again governing both Student Assistance General Provisions and the FFEL Program.

Requirements of short-term programs less than 600 clock hours

A short-term program provides eligibility for loans such as Federal Stafford Loans and Federal PLUS Loans if it meets certain standards. The following criteria apply to these programs, which must

- ◊ contain a minimum of ten weeks of instruction;
- ◊ consist of at least 300, but less than 600, clock hours;
- ◊ Provide undergraduate training that prepares a student for gainful employment in a recognized occupation, and admit as regular students some persons who have not completed the equivalent of an associate degree;
- ◊ Have a documented completion rate of 70 percent or above;

- ◊ Consist of a number of clock hours which does not exceed by more than 50 percent the minimum number of clock hours required for training in the recognized occupation for which the program prepares students;

- ◊ Have been in existence for at least one year.

Guaranty agencies may limit loans to schools

Under the Higher Education Amendments of 1992, guaranty agencies must develop, and submit to the Department for approval, their own standards for institutional participation. Guaranty agencies now have the authority to limit the total number or volume of loans made to students attending a particular school during a given academic year, if the agency makes a determination that the school does not satisfy the standards of administrative and financial capability.

Loss of eligibility—notification requirement

If a school has been notified that it has lost its eligibility to participate in the FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current *and prospective* students of its loss of eligibility, and explain that it can no longer certify FFEL loans for attendance at the school. If the school appeals its loss of eligibility within the required time frame, it may continue certifying FFEL loans during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter. (See Section Nine under "Appealing loss of eligibility" for more information about the appeal process.)

If a school loses eligibility or decides not to participate in FFEL programs, reinsurance of loans previously disbursed will not be affected, and interest benefits will continue as long as the student maintains his or her required enrollment status. The student's grace period and eligibility for in-school deferment also will not be affected by a school's loss of eligibility. However, if a school loses eligibility *before* it delivers any loan proceeds to the student, the proceeds may not be delivered to the student, because the school is no longer an eligible school. (See Section Nine under "Default Reduction Initiatives" for information about how excessive default rates affect a school's eligibility.)

If a school plans to withdraw from participation in the FFEL programs, it must notify both the appropriate guaranty agency or agencies and the Department of its decision. Once the effective date of withdrawal has been established, the school cannot deliver to a student any loan proceeds it receives from a lender, and must return the loan proceeds to the lender within 30 days. To find out more about the procedures required for withdrawal from the FFEL programs, call (202) 708-4906.

NOTE:
If the first disbursement of a Federal Stafford Loan was delivered to the student or credited to the student's account prior to non-participation, the school may deliver subsequent disbursements of that Federal Stafford Loan to satisfy any unpaid commitment made to a student for that period of enrollment for which the Stafford Loan was made.

If a school has never participated in the SFA programs but wants to be considered an eligible school for *deferment* purposes, the school must satisfy the Department that it meets the definition of an eligible school before it may certify borrower deferment forms. To find out more about elgibility for deferment purposes, write to:

U.S. Department of Education
Institutional Participation Division
600 Independence Ave. S.W., Room 3522
Washington, D.C. 20202-5323

The word "school(s)" as used in this chapter means a school participating in Federal Stafford Loan and Federal PLUS programs, even though the word "participating" is not always included.

Also note that when the term "Stafford Loans" is used, it includes both subsidized and unsubsidized Stafford Loans; when a distinction needs to be made, the word "subsidized" or "unsubsidized" will appear before "Stafford Loan(s)."

SECTION TWO: FEDERAL STAFFORD LOANS

Each of the Federal Family Education Loan (FFEL) programs has different loan limits, interest rates, and repayment and deferment conditions; those elements will be covered in this section and in the following two sections. Provisions common to all three programs, such as forbearance, cancellation, and default, will be covered in Section Six, along with some bases for comparing the loan programs. A chart showing deferments for all FFEL programs is at the end of Section Six.

The Omnibus Budget Reconciliation Act of 1993 (OBRA) and the Higher Education Technical Amendments of 1993 (Technical Amendments of 1993) made major changes in the Federal Stafford Loan Program. Those changes affecting both subsidized and unsubsidized Stafford Loans will be discussed here; changes affecting only unsubsidized Stafford Loans will be discussed in the next section.

LOAN LIMITS

The following subsidized Stafford Loan limits for first-year undergraduate students are effective for loans certified on or after October 1, 1992, and are based on the borrower's academic standing in the program in which he or she is currently enrolled. (Please note that a loan proration chart at the end of Section Two summarizes the information provided in the following outline.)

Restriction on first-year Stafford borrowers for loans certified on/ after 10/1/92

- **For an undergraduate student** who has not yet completed the first year of study:
  - ◊ up to $2,625 for a program of study at least an academic year in length;
  - ◊ up to $1,750 for a program at least two-thirds of an academic year, but less than a full year;

- ◊ up to $875 for a program at least one-third but less than two-thirds of an academic year.

For loans first disbursed on or after July 1, 1994, subsidized Stafford Loan limits change **for undergraduate students who have completed the first year of a program of study**.

- For a student who has completed the first year of study, but has not completed the remainder of the program, the loan limit is:

  - ◊ up to $3,500 for a program of study of at least an academic year in length;

  - ◊ for programs less than an academic year in length, or for programs of more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length, the loan must be prorated, as explained on the following page.

- For a student who has completed the first and second year of study, but has not completed the remainder of the program, the loan limits are—

  - ◊ up to $5,500 for a program of study at least an academic year in length;

  - ◊ for programs less than an academic year in length, or for programs of more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length, the loan must be prorated, as explained on the following page.

NOTE:
For the purpose of determining loan limits, the number of years that a student has completed in a program of undergraduate study includes any prior enrollment in an eligible program of undergraduate education for which the student was awarded an associate or baccalaureate degree, *if* such a degree is required by the school for admission to the program in which the student is currently enrolled. (The Technical Amendments of 1993 established this requirement, effective December 20, 1993.)

An "academic year" requires a minimum of 30 weeks of instruction during which a full-time undergraduate student is expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. For undergraduate students who have not yet completed the first year of study, loans for less than a full academic year are prorated in fixed amounts, as explained on the previous page. For all other students, the Technical Amendments of 1993 require proration of loans for any *portion* of an academic year, as explained below.

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Proration of loans

Proration of a loan is required when —

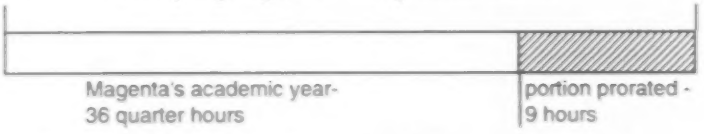
- a program is less than an academic year in either clock hours or credit hours, or number of weeks; or
- a program exceeds an academic year, but the portion of the program in excess of an academic year is less than an academic year in length.

To prorate a loan for a program that is less than an academic year, figure what proportion of a full academic year that program represents, and prorate the loan amount on that basis. Similarly, to prorate the amount of a loan for a program that is in excess of an academic year but the remainder is less than a full academic year in length, figure what proportion of a full academic year the excess represents, and prorate the loan amount on that basis. Here is an example of how proration works:

Example of proration

Mary, a student at Magenta Sands Community College, is enrolled in a program of 45 quarter hours. Mary received a Stafford Loan of $2,625 for the first year of her program of study. Since Magenta Sands' academic year is 36 quarter hours, Mary may receive more than one Stafford Loan. However, since Mary needs to complete only 9 hours to finish her program, her second Stafford Loan must be prorated to cover a period of less than an academic year. Her second Stafford Loan, covering a period of 1/4 of an academic year, is limited to $875, which is 1/4 of $3,500, the loan limit for a student who has completed the first academic year of study.

Mary's program - 45 quarter hours



$\frac{9}{36} = \frac{1}{4}$ $\frac{1}{4}$ of $3,500 = $875

Keep in mind that these Stafford Loan limits apply to standards the school has established for the length of time normally required to complete a given program. For example, if a student requires more than two years to complete a program the school has determined can normally be completed in two years of full-time study, the student may not receive more than the annual loan limit of $3,500, regardless of how long it takes the student to complete the program. Note that students may not receive Stafford Loans for programs of less than one-third of an academic year of study.

Students enrolled in teacher certification or recertification programs are considered the same as fifth year undergraduate students, and may borrow up to $4,000 for loans disbursed before July 1, 1993, and up to $5,500 for loans disbursed on or after July 1, 1993 (subject to the reductions for programs less than an academic year in length, as described above).

Loan limits for grad students

Graduate or professional students with subsidized Stafford Loans made for periods of enrollment beginning before October 1, 1993 may borrow up to $7,500 per academic year; those students with loans made for periods of enrollment beginning on or after October 1, 1993 may borrow up to $8,500 per academic year.

"7-month rule" no longer relevant—new principles to determine frequency of annual loan limits

Stafford Loan limits are restricted in terms of the time period to which they apply. Previously, seven months was the minimum period to which annual Stafford maximum loan limits could apply. Because the academic year definition discussed earlier requires a minimum of 30 weeks of instruction, which almost without exception will be longer than seven months, the Department has determined that the "seven consecutive month standard" will no longer be relevent to annual loan limit maximums. In addition, the Department has established guidelines to determine the frequency for annual loan limits. The guidelines define a minimum standard for annual loan frequency to replace the "7-month rule" and allow schools flexibility in applying the academic year requirements. The "Principles to Determine the Frequency for Annual Loan Limits" are included as Appendix B of this chapter.

Aggregate loan limits

The maximum outstanding debt allowed for undergraduate study is $23,000. The maximum outstanding debt for graduate or professional students, which includes any outstanding subsidized Stafford Loans borrowed for undergraduate study, is $65,000. *PLUS and SLS loans are not considered in determining Stafford Loan limits. Unsubsidized Stafford Loans **are** counted in both annual and aggregate Stafford Loan limits.* (See Section Three for an explanation of unsubsidized Stafford Loan limits and Section Six for a comparison of loan limits for Stafford and PLUS loans.)

The aggregate limit (or sum total) for both undergraduate and graduate/professional students must also include any portion of a borrower's Consolidation Loan that was used to repay a Stafford Loan or SLS. Thus, *consolidation of a student's loans does not increase his or her loan limits.* The student should contact the holder of his or her Consolidation Loan to determine the makeup of the loan—that is, the loan amounts and type of each loan consolidated—and to determine, if payment has been made, how that payment has been apportioned among the loans consolidated. See Section Five for more information on Consolidation Loans.

Loan consolidation does not increase loan limits

For the Stafford Loan Program, the student can borrow up to the aggregate limit on loans outstanding; once the loans are repaid in full or in part, a student again may apply for a Stafford Loan. (In the Perkins Loan Program, on the other hand, the loan maximum is limited by the total borrowed, even though previous loans may have been repaid.)

INTEREST RATES AND GRACE PERIODS

Grace period

Borrowers with fixed-rate loans, and those with variable interest rate loans, are entitled to a six month *grace period*, which is the period between the termination of at least half-time study at a participating school, and the beginning of loan repayment. (The one exception is the 9- to 12-month grace period for borrowers with Stafford Loans at the 7 percent interest rate.) For loans first disbursed on or after July 23, 1992, the grace period begins on the day after the borrower ceases attending school at least half time—either because the course of study has been completed, or because the student drops out of school, drops below half-time status, or transfers to a school that does not participate in the Stafford Loan Program. The borrower may request a shorter grace period. For correspondence students, the grace period begins on the date the borrower completes the program, or 60 days after: (1) the school's deadline for completing the program, or (2) the student misses the due date of a scheduled assignment.

6-month grace period for most Stafford Loans

For an SLS borrower who also has a Federal Stafford Loan on which the borrower has not yet entered repayment, the grace period is an equivalent period after the borrower ceases to be enrolled as at least a half-time student at an eligible institution.

Borrowers with Stafford Loans made prior to October 1, 1981 are entitled to a six month *post-deferment* grace period following any deferment. While a borrower may have several periods of unemployment deferred,

however, only one post-deferment grace period per borrower is permitted for the unemployment deferment. The 9- to 12-month grace period (noted above) for 7 percent loans is set by the lender or the guaranty agency, and is shown on the promissory note, signed by the borrower.

Interest rates

In the past, the interest rate on a borrower's first Stafford Loan applied to all subsequent Stafford Loans, as long as there was an outstanding balance on any of those loans. However, the Technical Amendments of 1993 have changed the law to enable borrowers with fixed interest rates on earlier Stafford Loans to obtain the variable interest rate previously available only to new borrowers.

- **For loans disbursed on or after October 1, 1992 and before July 1, 1994:**

  - ◊ note that the interest rate for a borrower with no FFEL loans outstanding (either subsidized or unsubsidized) whose Stafford Loan is first disbursed on or after October 1, 1992, but before July 1, 1994, will be a variable rate, determined on June 1 of each year.

    - the rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent; and

    - the interest rate for these loans may not exceed 9 percent.

- **For loans first disbursed on or after July 1, 1994 (and for loans first disbursed on or after July 1, 1995 but prior to July 1, 1998 - *except* during in-school, grace, and deferment periods):**

  - ◊ a Stafford Loan made to any borrower, regardless of whether that borrower has FFEL loans outstanding, will have a variable interest rate, determined on June 1 of each year.

    - the rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent; and

- the interest rate for these loans may not exceed 8.25 percent.

For example, a borrower with outstanding Stafford Loans with interest rates of 9 percent, or 7 percent, whose newest Stafford Loan is disbursed on September 1, 1994 will receive a variable interest rate on that loan. The terms and conditions (and interest rates) of the previous loans will still apply to those loans.

For the two categories of loans just described in the bullets (•) on the preceding page, the variable interest rate for the period July 1, 1993 through June 30, 1994 was 6.22 percent. The variable interest rate for the period July 1, 1994 through June 30, 1995 was determined in June 1994 to be 7.43 percent for these loans. The variable interest rate for the period July 1, 1995 through June 30, 1996 will be determined in June 1995.

- **For loans first disbursed on or after July 1, 1995 but prior to July 1, 1998 (*only* during in-school, grace, and deferment periods):**

  ◊ a Stafford Loan made to any borrower, regardless of whether that borrower has FFEL loans outstanding, will have a variable interest rate, determined on June 1 of each year.

  - the rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 2.5 percent; and
  - the interest rate for these loans may not exceed 8.25 percent.

Effect of variable interest rate on repayment period

To account for the effect of a variable interest rate on the outstanding debt, which must be repaid within the maximum allowable repayment period, a lender may either make adjustments in each borrower's monthly payment amount or must grant a mandatory administrative forbearance as described on page 10-62 of the Handbook and in the June 29, 1994 FFELP Final Rule.

Certain loans disbursed in the past are also now subject to a variable interest rate. This is an exception to the above stipulation that interest rates for previous loans will remain as they were when the loans were made. The Technical Amendments of 1993 required lenders to convert loans ***subject to rebate of excess interest*** to variable rate loans by January 1, 1995. The variable rate will depend on the type of loan converted, but will not exceed the interest rate of the loan prior to

conversion. The holder of the loan must inform the borrower of the conversion to a variable rate at least 30 days prior to conversion.

Loans subject to a rebate of excess interest

- Stafford Loans (subsidized or unsubsidized) at 8 percent changing to 10 percent after four years either—
  - ◊ made before July 23, 1992 or
  - ◊ made to a new borrower on or after July 23, 1992 and before October 1, 1992.
- Stafford Loans made on or after July 23, 1992 and before July 1, 1994 to a borrower with outstanding FFEL loans.

Loans subject to the rebate of excess interest are explained in more detail in the November 30, 1994 FFELP Final Rule and are summarized under the following heading, "Rebate of excess interest—'windfall profits.' "

Rebate of excess interest—"windfall profits"

Fixed interest rate loans are subject to a rebate of excess interest if the current average of bond equivalent rates of 91-day Treasury bills plus a "factor" (3.25 percent or 3.1 percent) for a particular quarter is less than the interest rate of the loan. This rebate of excess interest is sometimes termed "windfall profits." The rebate varies depending on the interest rate of the loan and whether the borrower is a new borrower.

For any Stafford Loan (subsidized or unsubsidized) described after the first of the two bullets (•) under the previous section "Loans subject to a rebate of excess interest", the borrower is entitled to a rebate of excess interest under the following condition:

- If the sum of the average of the bond equivalent rates of 91-day Treasury bills for that quarter, plus 3.25 percent, is less than the interest rate when it is at 10 percent, the lender must calculate the adjustment to excess interest and rebate the difference to the borrower's account.
  - ◊ The rebate can be made either by reducing the amount of the borrower's payments, or by reducing the number of payments required to repay the loan.

For any Stafford Loan (subsidized or unsubsidized) made on or after July 23, 1992 to a borrower with outstanding FFEL loans (described after the

second of the two bullets on the previous page), the borrower is entitled to a rebate of interest as follows:

- If the sum of the average of the bond equivalent rates of 91-day Treasury bills for that quarter, plus 3.1 percent, is less than the borrower's interest rate, the lender must calculate the adjustment to excess interest and rebate the difference to the borrower's account as described above.

- In the case of a Stafford Loan at the 8 percent changing to 10 percent interest rate, the loan will be subject to a rebate on the loan at both the 8 and 10 percent interest rate.

Conversion of loans, subject to rebate of excess interest, to variable-rate loans

As mentioned previously, the Technical Amendments of 1993 required lenders to convert loans subject to rebate of excess interest to *annual variable rate loans* by January 1, 1995. The holder of the loan was required to inform the borrower of the conversion to a variable rate at least 30 days prior to conversion.

Please note that while the borrower is in school, in the grace period, or during periods of deferment of interest payment, the excess interest must be refunded to the Department by the lender. In addition, if the borrower's account is more than 30 days past due on the last day of the calendar year, the rebate must be paid to the Department instead of to the borrower's account. Under any other circumstances, the lender must credit the rebate to the borrower's loan account at the end of each calendar year. As described above, the rebate can be made either by reducing the amount of the borrower's payment, or by reducing the number of payments required to repay the loan.

Variable interest rate loans are not subject to the rebate of excess interest. In addition, SLS and PLUS loans are not subject to rebate of excess interest provisions.

Variable interest rates of loans subject to rebate of excess interest

The variable interest rate is equal to—

- the sum of the bond equivalent rate of 91-day Treasury bills plus
  - ◊ 3.25 percent for loans subject to rebate only at 10 percent, or
  - ◊ 3.1 percent for loans made on or after July 23, 1992 to borrowers with outstanding FFEL loans.
    - The applicable bond rate will be determined by the U. S. Department of Education based on the rate at the final auction prior to June 1 of each year and will apply to loans for a period of one year beginning July 1 after the rate is determined.

For July 1, 1994 through June 30, 1995, the variable rate for the first category of loans (described under the first diamond ◊ near the end of the preceding page) was 7.58%. For the second category of loans (next to the second ◊), the variable rate was 7.43%. The variable interest rate for these loans for the period July 1, 1995 through June 30, 1996 will be determined in June 1995.

ADDITIONAL COSTS OF BORROWING

Insurance premium reduced to 1%

For loans first disbursed on or after July 1, 1994 for periods of enrollment that begin on or after that date, the maximum insurance premium that a guaranty agency may charge the lender of a Stafford Loan or PLUS is a one-time fee not to exceed 1 percent of the principal amount of the loan. (Formerly, a guaranty agency could charge a lender a fee not to exceed 3 percent of the loan principal.) If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each disbursement of the loan.

Origination fee reduced to 3%

For loans first disbursed on or after July 1, 1994 for periods of enrollment beginning on or after that date, the origination fee that a lender may charge the borrower has been reduced from 5 percent to 3 percent of the principal amount of the loan. Lenders must deduct (or collect) the origination fee proportionately from each disbursement of the loan proceeds.

The origination fee and the insurance premium must be refunded by crediting the borrower's loan account if the loan check is returned uncashed to the lender, is not cashed within 120 days of disbursement, or if the loan is repaid in full within 120 days of disbursement. Note that the loan origination fee is not retained by the lender, but is turned over to the federal government to help offset the cost of federal interest subsidies.

REPAYMENT

While the borrower is in school at least half time, interest on a subsidized Stafford Loan is paid by the federal government on the borrower's behalf. The loan repayment period for a Stafford Loan first disbursed on or after July 23, 1992 begins the day after the grace period ends, and ends no later than 10 years from that date (excluding periods of deferment and forbearance). Generally, the first payment on a Stafford Loan is due no later than 45 days after the first

day of the month in which repayment begins. The lender must notify the borrower of the date the first payment is due no later than 120 days after the borrower has left school.

Note that if a borrower's attendance was interrupted by the earthquake in California, he or she should be considered to be in "in-school" status during the period of nonattendance resulting from the earthquake damage. For more guidance to schools affected by the earthquake, see Dear Colleague letter GEN 94-3 (January 1994).

Establishing a withdrawal date

The student's withdrawal date is the date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later. Effective July 1, 1995, a student who has been granted a leave of absence is not considered to have withdrawn from school, as stated in the November 29, 1994 Student Assistance General Provisions and FFELP Final Rule. Prior to this point, a student on a leave of absence is considered to have withdrawn.

If a student fails to return from an approved leave of absence (whether approved or unapproved), the withdrawal date is the last recorded date of class attendance. The same date (the last recorded date of class attendance) is used if the student withdraws unofficially by dropping out of an institution without notifying that institution. An institution must determine the withdrawal date for a student who drops out within 30 days of the earlier of the —

- period of enrollment for which the student has been charged;
- academic year in which the student withdrew; or
- educational program in which the student withdrew.

The refund policy for students who have withdrawn, dropped out, or who have not returned from an approved or unapproved leave of absence is explained on pages 10-129 to 10-131 of this chapter.

For correspondence study, the withdrawal date is the date of the last lesson submitted by the student. For appeal procedures with regard to the withdrawal date for correspondence study, see the General Provisions regulations, Part 668.22 ("Institutional Refunds and Repayments"), section (j)(1)(iii).

It is the student's responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time.

Remind students to keep lenders informed!

You are urged to emphasize to students the importance of that responsibility. Upon notification of this critical date, the lender will send a repayment schedule to the borrower. If assignment of a loan results in a change in where loan payments should be sent, the borrower must be notified by the present and former holder of the loan (either jointly or separately) of the change within 45 days of its occurrence. In addition if, as often happens, the lender sells the loan or otherwise transfers the right to receive payment, the borrower must be notified. This notification should spell out the borrower's obligations to the new holder of the loan. (See Section Ten under "Exit Counseling" for more detail on this requirement.) Provisions of the loan repayment schedule must agree with those in the promissory note and the loan Disclosure Statement. Generally, the borrower has from five to ten years to pay off the loan. Any periods of authorized deferment or forbearance granted are not counted in the five- to ten-year repayment period.

Loan prepayment

The borrower may prepay all or part of a loan at any time without penalty. Unless the borrower requests that the lender credit a prepayment to future loan installments, the lender may credit the prepayment first to late charges or collection costs, then to outstanding interest, and then to unpaid principal. However, if the prepayment amount equals or exceeds three full scheduled payments, the lender may apply the prepayment to future installments without the prior request of the borrower. The lender must inform the borrower that the payments have been applied to future installments, and must notify the borrower of the advanced payment due date.

REMINDER:
Schools are required to inform the lender (or guaranty agency) of any change in the borrower's enrollment status.

If a student returns to school at least half time *before* the grace period ends, he or she may again postpone loan repayment while in school and will be entitled to a full grace period upon termination of enrollment or when dropping below half-time status. The student should understand, however, that *once the grace period ends, he or she is in repayment status, and must enroll in a participating school full time in order to qualify for a deferment.* (See the exception to full-time enrollment for new borrowers under "Deferment" in this section.)

In general, minimum payments must be at least $600 per year on new loans. Loan payments for Stafford Loans, however, usually exceed these minimums, and monthly payments may not be less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of five dollars. The lender may require a repayment period of less than five years, if necessary, to ensure that the above minimum payments are met. Note that the $600-per-year minimum

combined annual payment for a couple who both have Stafford Loans is no longer permitted.

Options for repayment

Lenders are now required to offer the option of standard, graduated, or income-sensitive payments to new borrowers. A "new borrower" is defined as someone who has no outstanding balance on an FFEL Program Loan on or after July 1, 1993. In addition, this category of borrowers includes those whose applications for Federal Consolidation Loans are received on or after January 1, 1993, and also those who obtain a Federal Consolidation Loan on or after July 1, 1993 (if these borrowers have no other outstanding FFEL Program Loans when the Consolidation Loans are made). Finally, please note that the Secretary encourages lenders to offer this flexible range of repayment options to all other borrowers.

A choice of repayment plans must be provided to borrowers not more than six months prior to the date of the first scheduled loan payment. Even if a particular plan is not chosen, lenders are permitted to require each borrower to repay all of his or her FFEL loans under one repayment schedule.

Lenders may agree to a standard, graduated, or income-sensitive repayment schedule, as long as minimum annual payment and maximum time periods for loan repayment are met and as long as payments at least cover interest charges. Also, a borrower must respond to the lender's offer of a choice of repayment options within 45 days after the lender makes the offer.

Please note that if a new borrower has already entered repayment and wishes to select a new repayment option, the lender must provide the borrower with this new schedule prior to July 1, 1995.

The Income-Sensitive Repayment Plan

Borrowers requesting this option will be contacted by the lender within 90 days of the date loan repayment is to begin. Under this plan, the borrower is not required to provide documentation of income unless the borrower reports income that would cause the amount of his or her monthly payment to be insufficient to repay the loan within the maximum ten-year repayment period. However, the lender may still require a borrower's federal income tax return as income verification if the lender thinks it is needed.

If this or any of the other plans is not chosen within the above-specified 45-day time frame, or the borrower chooses the income-sensitive plan but then does not provide any documentation which may be required for

repayment under that plan, a lender may require that borrower to repay his or her loans under the standard repayment option.

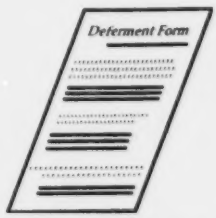
These and other requirements pertaining to repayment plans are described in the June 29, 1994 FFELP Final Rule on repayment, deferment, and forbearance provisions.

Other Repayment Provisions

A loan forgiveness demonstration program that would repay a portion of a Stafford Loan for borrowers employed as teachers, nurses, or in community service is described in Section Six under "Loan forgiveness." However, the program is not yet funded.

If, after obtaining a Stafford Loan, the borrower enrolls less than half time, fails to enroll during the period for which the loan was intended, or is otherwise found to be ineligible for all or part of the loan, the borrower must immediately notify the lender and repay the amount due. (The school must also notify the lender of the borrower's loan ineligibility.) *If the borrower fails to do so, the lender, after following due diligence requirements (which include demanding payment in full), may file a default claim for the full loan amount.*

DEFERMENT



Deferment periods are periods during which payment of principal on a Stafford Loan is postponed and, except for unsubsidized Stafford Loans, interest subsidy payments are made by the federal government. Once repayment begins, borrowers are entitled to a deferment if they meet the requirements below. However, *the borrower must request a deferment either verbally, or more often, on a form provided by the lender, and must provide documentation to the lender in support of the request.* The borrower should continue making payments on the loan until notification of the deferment is received. A deferment period begins on the date the condition, such as unemployment or military service, begins. The Department has developed a common deferment form; it was mailed to all guaranty agencies on March 30, 1994.

Retroactive deferments

A deferment can be granted retroactively for up to six months. For an unemployment deferment, the borrower must provide an additional

deferment request before the end of each six-month period of unemployment, affirming his or her continuing search for employment.

Change in definition of "eligible institution" for in-school deferment

A deferment for full- or half-time study at an eligible school is commonly referred to as an "in-school" deferment. Under the Higher Education Amendments of 1992, any school that meets the definition of an eligible institution, whether or not it is currently participating in any SFA programs, is an eligible school for the purpose of the in-school deferment. However, if a school has never participated in SFA programs, it must be determined by the Department to meet the definition of an eligible institution before certifying an in-school deferment.

With the approval of the agency guaranteeing the loan, a Stafford or PLUS loan application can serve as a request for in-school deferment for a full-time student. A lender or guaranty agency may rely on the school's certification of a borrower's eligibility for the in-school deferment. The anticipated graduation date on the application is considered to be the end date of the in-school deferment.

No in-school deferment for medical intern or residency program

Under prior law, medical interns or residents at certain schools could receive an "in-school" deferment for the full internship or residency program. (The Department has interpreted the term "medical internship or residency" as limited to internships or residencies required of doctors of medicine, osteopathy, or optometry.) However, beginning January 1, 1990, a borrower in a medical (not dental) internship or residency program may not receive *or continue* this "in-school" deferment. If eligible, the borrower may receive the two-year internship or residency deferment and subsequently must be granted forbearance of principal for the remainder of the internship/residency program. See Dear Colleague letters GEN-89-58 (December 1989) and GEN-90-33 (September 1990) for more detail on this restriction.

However, it may be possible for medical interns or residents to qualify for the economic hardship deferment described on page 10-35 after the margin note "Deferments for new borrowers with loans first disbursed on or after 7/1/93" (and also described on pages 10-72 to 10-73). Please note that these borrowers must meet the regulatory provisions for an economic hardship deferment. This type of deferment is not based on status as a medical intern or resident.

Please note that if a borrower's loan is in default, he or she is not eligible for any deferments for that loan.

Deferments of repayment for any Stafford Loan borrowers are listed below. For more detailed information on deferments than is provided here, see Section 682.210 of the FFEL Program regulations.

Deferments of repayment for Stafford Loan borrowers with loans made *prior to July 1, 1987* are authorized for—

- Full-time study at an eligible school.

NOTE:
As noted on page 10-28, while a Stafford Loan borrower may obtain a loan while a half-time student, once he or she ceases enrollment at a participating school at least half time and enters repayment, that student must enroll full time in a program in order to be eligible for a deferment. (See the exception on page 10-35.)

- Full-time study at an institution of higher education or a vocational school which is operated by an agency of the federal government. (Most federally operated schools are associated with the Department of Veterans Affairs or with the armed forces.)

- Study in an eligible graduate fellowship program, including a recognized graduate international fellowship program at a foreign university. The borrower will have to provide the lender with specific information about the program.

- Study in an approved rehabilitation training program for the disabled.

- Up to three years of active duty status in the United States armed forces (Army, Navy, Air Force, Marine Corps, and the Coast Guard) or service as an officer in the Commissioned Corps of the U.S. Public Health Service (including any combination of such periods of service). Members of the National Guard or the Reserves who are on full-time *active duty status*—as distinguished from full-time service—may qualify for military deferment. Such a borrower is serving in the active military service.

- Up to three years of volunteer service under the Peace Corps Act (if the borrower has agreed to serve for at least one year).

- Up to three years of service as a full-time volunteer under Title I of the Domestic Volunteer Act of 1973 (ACTION programs). Again, the borrower must agree to serve for at least one year.

- Up to three years of full-time volunteer service (for a tax exempt organization) that is comparable to service as a Peace Corps or ACTION volunteer.

- Periods of unemployment totalling up to two years, if during those periods the borrower is seeking but unable to find full-time employment. The borrower must provide the lender with periodic documentation of attempts to find employment. The borrower may attend school during this period as long as the requirements for this deferment are met.

  NOTE:
  If a borrower's unemployment continues beyond two years as a result of devastation caused by Hurricane Andrew, Hurricane Iniki, or Typhoon Omar, the Department will extend the unemployment deferment for an additional six months.

- Up to two years of service in an internship program required to begin professional practice or service.
  Up to two years for a **medical** internship or residency training program required by a state licensing agency before beginning professional practice or service in that state. The borrower must have a bachelor's degree or equivalent before beginning the program.

  or

  Up to two years of service in a **medical** internship or residency program which leads to a degree or certificate awarded by an institution of higher education, hospital, or a health care facility with postgraduate training. The program must require a bachelor's degree as a condition of acceptance. (See the restrictions on eligibility of hospitals or health-care facilities under "Institutional Eligibility" in Section One.)

  Note that the two-year limit for an internship or residency deferment does not include time spent in an in-school deferment during internship or residency before January 1,1990. Lenders are now required to grant forbearance of principal to medical or dental interns or residents whose programs exceed the two-year internship deferment. See "Forbearance" under Section Six for more information on this forbearance provision.

Lender must grant forbearance to medical or dental interns who have exhausted internship deferment and request forbearance

- Up to three years during which the borrower is temporarily totally disabled or during which the borrower is unable to work because he or she is caring for a spouse or other dependent who is temporarily totally disabled (including any combinations of such periods). Certification for this deferment must be provided by a doctor of medicine or osteopathy, or a licensed clinical psychologist.

- Up to six months of parental leave for each period during which a borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child immediately following adoption. The borrower must be unemployed and not attending school and must apply within six months after he or she leaves school or drops below half-time status.

The following additional deferments of repayment for a Stafford Loan apply only to new borrowers. *For these deferments*, a new borrower is one who, on the date the promissory note is signed, has no outstanding balance on an FFEL Program loan made before July 1, 1987 for a period of enrollment beginning before July 1, 1987. (Note that a borrower with *no* outstanding FFEL Program loans may be subject to the deferments for new borrowers with loans disbursed on or after July 1, 1993, depending on the borrower's status on his or her loan application date, and on the first disbursement date of the loan. See the following page for clarification of this distinction.) The following deferments are authorized for—

- Up to three years of active duty in the National Oceanic and Atmospheric Administration Corps.

- Up to three years of full-time teaching in a public or nonprofit private elementary or secondary school in a teacher shortage area as determined by the U. S. Department of Education. The teacher shortage area may be a geographic area with a shortage of teachers, or a specific grade level or subject-matter area in which there is a statewide shortage of elementary or secondary teachers. The borrower must provide the lender with a yearly certification that he or she is a full-time teacher and is teaching in a designated teacher shortage area.

  If the borrower's position does not retain its designation as one in a teacher shortage area, the borrower may still be eligible for the deferment if he or she continues to teach full time in the position that originally provided qualification for the deferment. (For more information about this deferment, borrowers should

be instructed to contact the chief state school officer or the appropriate guaranty agency in the state in which the borrower is teaching.)

- Periods of half-time study, *if* the school has documented that the borrower has obtained a Stafford Loan or SLS for that same enrollment period.

- Up to 12 months for mothers of preschool-age children who are going to work (or back to work) for at least 30 hours per week at a salary that is no more than $1.00 over the federal minimum wage. The employment should be expected to last at least three months.

Deferments for new borrowers with loans first disbursed on or after 7/1/93

The following deferments of repayment apply to borrowers of FFEL program loans who are new borrowers (meaning a borrower with no outstanding balance on *any* FFEL Program loan) on the date the loan application is certified, and whose first disbursement of the loan is made on or after July 1, 1993. This category of new borrowers also includes those who obtain Federal Consolidation Loans on or after July 1, 1993 if these borrowers have no other outstanding FFEL Program Loans when these Consolidation Loans are made.

Deferments are authorized for—

- at least half-time study at an eligible school;

- study in an eligible graduate fellowship program, including study outside the United States;

- study in an approved rehabilitation training program for the disabled;

- up to three years during periods in which the borrower is seeking and unable to find full-time employment; and

New definition of economic hardship

- up to three years during periods that the lender determines will cause the borrower economic hardship. Economic hardship exists when the borrower is receiving payment under a federal or state public assistance program, or is working full time and is earning a total monthly gross income that does not exceed the greater of: a) the minimum wage; or, b) the poverty line for a

family of two, as determined in Section 673(2) of the Community Service Block Grant Act.

The borrower may instead meet other criteria used to determine economic hardship. Specifically, the borrower may qualify if he or she is working full-time and has a federal educational debt burden (including defaulted loans) that is at least 20 percent of the borrower's total monthly gross income; this income is based on full- and part-time employment and revenue received from all other sources. The borrower's income, minus the educational debt burden, must be less than 220 percent of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100 percent of the poverty line for a family of two.

In addition, a borrower may receive an economic hardship deferment under FFEL if the borrower has been granted an economic hardship deferment under either the Federal Direct Loan Program or the Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested.

Other criteria for this deferment are described in the November 29, 1994 FFEL Final Rule.

Please note that an endorser on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both comakers are simultaneously eligible for the same, or different, deferments.

You may wish to reassure students (and endorsers) with previous loans, who are concerned about changes in deferment conditions, that deferments listed on the promissory note cannot be removed; however, additional deferment conditions which could apply to *all* borrowers may be added by future legislation.

A chart at the end of Section Six provides deferment information on Stafford Loans (subsidized and unsubsidized) and other FFEL Program loans. For more information on specific deferment provisions, the student should be advised to read carefully his or her promissory note and contact the appropriate lender to resolve any questions.

LOAN PRORATION:
Federal Family Education Loan and Federal Direct Loan Programs

Program Length or Enrollment Period*	YEARS OF UNDERGRADUATE EDUCATION SUCCESSFULLY COMPLETED: Less than 1 year — Base Stafford (sub and unsub)	Less than 1 year — Additional Unsub Stafford	Equal to or greater than 1 year and less than 2 years — Base Stafford (sub and unsub)	Equal to or greater than 1 year and less than 2 years — Additional Unsub Stafford	2 years or more — Base Stafford (sub and unsub)	2 years or more — Additional Unsub Stafford
1 academic year	$2,625	$4,000	$3,500	$4,000	$5,500	$5,000
Less than 1 and greater than or equal to 2/3 academic year	$1,750	$2,500	Proportional Proration**	$2,500	Proportional Proration**	Proportional Proration**
Less than 2/3 and greater than or equal to 1/3 academic year	$875	$1,500	Proportional Proration**	$1,500	Proportional Proration**	Proportional Proration**
Less than 1/3 academic year	0	0	Proportional Proration**	0	Proportional Proration**	Proportional Proration**

**Applies to:* 1. Program of study that is shorter than an academic year;
2. Program of study that is longer than an academic year, but contains a final period of enrollment that is shorter than an academic year.

***Proportional Proration required:* The maximum annual loan amount is the ratio that the remaining balance of the student's program bears to the academic year. For example: If 600 clock hours remain in a 900 clock hour academic year, use the ratio 600/900, or 2/3. 2/3 x $3,500 (annual loan maximum for full academic year) = $2,334, which is the prorated annual loan maximum.

SECTION THREE: UNSUBSIDIZED FEDERAL STAFFORD LOANS

It has always been possible for a borrower unable to qualify for a need-based Federal Stafford Loan to apply for an unsubsidized Stafford Loan—one that does not qualify for a federal interest subsidy. However, the Higher Education Amendments of 1992 added specific provisions for an unsubsidized Stafford Loan Program for borrowers who do not qualify for a subsidized Stafford Loan or who, based on need analysis, qualify for only a part of their subsidized Stafford Loan limit. A borrower must have his or her eligibility for a subsidized Stafford Loan determined before he or she may borrow an unsubsidized Stafford Loan. A borrower meeting the student eligibility requirements for an FFEL may borrow an unsubsidized Stafford Loan under the Higher Education Amendments of 1992 provisions for a period of enrollment beginning on or after October 1, 1992. A single application form and a single repayment schedule may be used for both unsubsidized and subsidized Stafford Loans. (See Section Seven for more information on the loan application process.)

Changes to the Stafford Loan Program that affect both subsidized and unsubsidized Stafford Loans are discussed in Section Two.

As mentioned in the introduction to this chapter, the Omnibus Budget Reconciliation Act of 1993 eliminated the Federal SLS program as a separate program. Effective for periods of enrollment beginning on or after July 1, 1994, the SLS program has been merged into the unsubsidized Stafford Loan program. Therefore, unsubsidized Stafford Loans made for periods of enrollment *before* July 1, 1994 may have benefits and conditions different from unsubsidized Stafford Loans made *after* that date; those pre-July 1, 1994 loans will retain those different conditions and benefits. Changes to unsubsidized Stafford Loans as the result of new legislation will be explained in this section, with a margin note indicating the appropriate legislation.

Unsubsidized Stafford Loans made before 7/1/94 may differ from unsub loans made after 7/1/94

If, due to circumstances such as an adverse credit history, a dependent undergraduate student's parents are unable to borrow a PLUS, under the Technical Amendments of 1993 the student will be allowed the loan limits applicable to independent students under the unsubsidized Stafford Loan program.

LOAN LIMITS

Loan limits for dependent undergrad students are unchanged

Loan limits for unsubsidized Stafford Loans *made to a dependent undergraduate student* are the same as those for subsidized Stafford Loans; however, the combination of subsidized and unsubsidized Stafford Loans for a dependent undergraduate student may not exceed the annual and aggregate limits for loans under the Stafford Loan program. The unsubsidized Stafford Loan amount, subject to the loan limits described above, is the difference between the borrower's cost of attendance for the loan period in question and the borrower's estimated financial assistance (including a subsidized Stafford Loan, if the borrower qualifies for one). Here is an example of how the amount of an unsubsidized Stafford Loan for a dependent undergraduate student might be determined.

> Michael, a first-year student at State U., and a dependent student, applies for a Stafford Loan for a school term beginning in September 1994. His cost of attendance is $8,000, and he qualifies for a subsidized Stafford Loan of $1,000. He may apply for an unsubsidized Stafford Loan for $1,625, the difference between the maximum Stafford Loan allowed him ($2,625) and the amount of his subsidized Stafford. (His parents may borrow a PLUS to cover the remainder of his cost of attendance.)

Loan limits for independent undergrads

The following unsubsidized Stafford Loan limits may be added to the borrower's subsidized Stafford Loan limits. Following are loan limits for unsubsidized Stafford Loans first disbursed on or after July 1, 1994 and made to **independent undergraduate students** (or to dependent students whose parents are unable to borrow a PLUS).

- For a student who has not completed the first two years of undergraduate study, loan limits are—

- ◊ up to $4,000 for a program of study at least an academic year in length;

- ◊ up to $2,500 for a program at least two-thirds of an academic year, but less than a full year;

- ◊ up to $1,500 for a program at least one-third but less than two-thirds of an academic year.

- For a student who has completed the first and second years but has not completed the remainder of the program, the loan limit is—

  - ◊ up to $5,000 for a program of study of at least an academic year in length;

  - ◊ for programs less than an academic year in length, or for programs of more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length, the loan must be prorated, as explained on page 10-19.

Here is an example of how the amount of an unsubsidized Stafford Loan for an independent undergraduate student might be determined.

> Mary, a first-year independent undergraduate student at Community U., has a cost of attendance of $7,000 per academic year. She qualifies for a subsidized Stafford Loan of $1,500. Mary may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her subsidized Stafford Loan limit, plus a $4,000 maximum unsubsidized Stafford Loan). Her total loan limit for both her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625.

Loan limits for grad students

Graduate or professional students with unsubsidized Stafford Loans first disbursed on or after July 1, 1994 may borrow up to $10,000 per academic year, in addition to the amounts borrowed under the subsidized Stafford Loan program.

Aggregate loan limits

The aggregate limit for subsidized and unsubsidized Stafford Loans is $23,000 for a dependent undergraduate student, $46,000 for an independent student and $138,500 ($65,500 subsidized and $73,000 unsubsidized) for a graduate or professional student (including loans for undergraduate study).

For periods of enrollment beginning on or after October 1, 1992, an unsubsidized Stafford Loan can be used to offset the borrower's Expected Family Contribution (EFC). (See Section Seven for more detail on the EFC.)

INTEREST RATES AND GRACE PERIODS

Generally, interest rates and grace periods for unsubsidized Stafford Loans are the same as those for subsidized Stafford Loans. However, only loan principal is deferred for these loans; payment of interest for an unsubsidized Stafford Loan must be made during the grace period and during other periods of deferment. Or, interest may be allowed to accrue and be capitalized (no more frequently than quarterly) and added to loan principal when repayment begins.

As with subsidized Stafford Loans, unsubsidized Stafford Loans disbursed on or after July 1, 1994 have a variable interest rate, as explained under "Interest rates and grace periods" in Section Two.

ADDITIONAL COSTS OF BORROWING

New combined origination fee of 3%

For loans first disbursed before July 1, 1994, there is a combined origination fee and insurance premium of 6.5 percent of the principal amount of an unsubsidized Stafford Loan. For loans first disbursed on or after July 1, 1994 for periods of enrollment beginning on or after that date, the combined fee has been renamed the "origination fee" and the amount has been reduced to 3 percent of the loan principal. The cost will be deducted proportionately from each disbursement of the loan.

New insurance premium of 1%

Also effective for loans first disbursed on or after July 1, 1994 for periods of enrollment beginning on or after that date, the guaranty agency may charge the lender an insurance premium not to exceed 1 percent of the loan principal. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each disbursement of the loan.

REPAYMENT

Repayment of an unsubsidized Stafford Loan begins the day after the expiration of the six-month grace period. For loans first disbursed on or after July 1, 1994, the repayment *period* begins on the date the first payment of principal is due from the borrower. (Previously, the repayment period began on the day after the grace period ended.) As noted above, deferment of repayment of these loans is for principal only; the borrower must pay all interest that accrues on the loan while he or she is in school, during the grace period, and during periods of deferment, according to the terms of the repayment schedule.

DEFERMENT

Borrowers receiving unsubsidized Stafford Loans will qualify for the same deferments as subsidized Stafford Loan borrowers. Those deferments are listed on pages 10-30 to 10-36 of Section Two. As with other FFEL programs, for the purpose of an in-school deferment, an eligible school is any school that has ever participated in an SFA program, even if the school has lost its eligibility to participate in FFEL programs. If a school has never participated in SFA programs, it must be determined by the U.S. Department of Education to meet the definition of an eligible institution before certifying an in-school deferment.

A chart covering deferment provisions for all FFEL programs is at the end of Section Six.

SECTION FOUR: FEDERAL PLUS LOANS

As explained in Section Three, the Omnibus Budget Reconciliation Act of 1993 eliminated the Supplemental Loans for Students (SLS) program (formerly covered in this section) as a separate program. Effective for periods of enrollment beginning on or after July 1, 1994, the SLS program has been merged into the unsubsidized Stafford Loan program. SLS loans will be mentioned in this section only as they affect PLUS loan procedures. For detailed information on SLS loans made before July 1, 1994, please refer to Section Four of *The Federal Student Financial Aid Handbook, 1993-94*.

Forbearance, cancellation, default, and other provisions common to all FFEL programs, as well as to the Federal PLUS program, are covered in Section Six.

LOAN LIMITS

Federal PLUS loans are limited to parent borrowers. A parent, as defined in the General Provisions regulations, Section 668.2, is a person's natural or adoptive mother or father, or legal guardian (which may include a stepparent, as long as the stepparent meets the legal definition of an adoptive parent or legal guardian). As mentioned under "Borrower eligibility" in Section One, effective July 1, 1995 a parent with an adverse credit history may receive a loan by securing an endorser who does not have an adverse credit history.

Adverse credit history provisions for PLUS borrowers

As stated at the end of page 10-3, regulatory criteria for determining adverse credit history has been established by the Department. The provision that enables a parent with an adverse credit history to secure an endorser without adverse credit was published November 29, 1994.

Definition of adverse credit history was provided in a final regulation published June 28, 1994.

Limits for PLUS loans made before 7/1/93

- **For PLUS loans disbursed before July 1, 1993,** a parent may borrow up to $4,000 per academic year on behalf of each dependent undergraduate student, to a maximum outstanding debt of $20,000 per student. The student's parents may borrow jointly or separately for the student. If they borrow separately, the loan limits on behalf of dependent students apply to the total of both loans, not to each loan individually. If the parents borrow jointly, both are liable for repayment of the loan as endorsers.

  These loan limits *do not* include amounts borrowed by the student under the Federal Stafford Loan or Federal SLS programs. In case of separation or divorce of a student's parents, either parent may borrow under PLUS—borrowing is not restricted to the parent who filled out the financial aid and/or loan application.

  In addition to the above limits, no borrower may receive a loan for more than the student's estimated cost of attendance minus other financial aid awarded during the period of enrollment.

PLUS loans disbursed after 7/1/93 limited only by COA minus other aid

- **For PLUS loans for which the first disbursement is made on or after July 1, 1993,** annual and aggregate loan limits have been repealed. However, a PLUS loan may not exceed the student's estimated cost of attendance (COA) minus other financial aid awarded during the period of enrollment.

Unsubsidized Stafford may be permitted after PLUS denial

If, due to circumstances such as an adverse credit history, a dependent undergraduate student's parents are unable to borrow a PLUS, under the Technical Amendments of 1993 the student will be allowed the loan limits applicable to independent students under the unsubsidized Stafford Loan Program. You must put in writing your reason(s) for making the decision, provide supporting documentation, such as a letter of denial of a PLUS loan from a lender, and keep the information in the student's file.

INTEREST RATES

PLUS interest rates are variable; adjusted each year

PLUS loans for which the first disbursement is made on or after July 1, 1987 through September 30, 1992 have a *variable* interest rate, to be determined on June 1 of each year according to a prescribed formula, and effective for the following July 1 through June 30. The interest rate for these PLUS loans cannot exceed 12 percent, and the interest rate for these PLUS loans for the period from July 1, 1993 through June 30, 1994 was 6.79 percent. For the period July 1, 1994 through July 1, 1995, the rate was 8.53 percent.

PLUS loans first disbursed on or after October 1, 1992 through June 30, 1994 also have a variable interest rate, determined on June 1 of each year. However, the interest rate for these loans may not exceed 10 percent. The variable interest rate for these PLUS loans for the period July 1, 1993 through June 30, 1994 was 6.64 percent. For the period July 1, 1994 through July 1, 1995, the rate was 8.38 percent.

The variable interest rate for a PLUS loan disbursed on or after July 1, 1994 but prior to July 1, 1998 will not exceed 9 percent. The rate will be determined on June 1 of each year and be effective for the following July 1 through June 30. It is determined by the bond equivalent rate of the 52-week Treasury Bills auctioned at the final auction held prior to each June 1, plus 3.1 percent. For the period July 1, 1994 through July 1, 1995, the rate was 8.38 percent.

Parents with PLUS loans should understand that annual adjustments in interest rates may alter their monthly payments. Or, the lender may keep the monthly payment amount the same, but increase (or decrease) the number of payments required, to reflect the increase (or decrease) in the variable interest rate.

No interest subsidy for PLUS

There is no interest subsidy for PLUS borrowers; the borrower is responsible for all interest that accrues on the loan while the student is in school and during periods of deferment, according to the terms of the repayment schedule.

ADDITIONAL COSTS OF BORROWING

Insurance premium reduced to 1%

For loans first disbursed on or after July 1, 1994 for periods of enrollment beginning on or after that date, the maximum insurance premium that a guaranty agency may charge the lender of a PLUS is a one-time fee not to exceed 1 percent of the principal amount of the loan. (Formerly, a guaranty agency could charge a lender a fee not to exceed 3 percent of

the loan principal.) If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each disbursement of the loan.

Origination fee reduced to 3%

For loans made on or after October 1, 1992 through June 30, 1994, PLUS borrowers will be charged an origination fee of 5 percent of loan principal, to be deducted proportionately from each disbursement of the loan. For loans first disbursed on or after July 1, 1994 for periods of enrollment beginning on or after that date, the origination fee has been reduced from 5 to 3 percent of loan principal. Lenders must deduct (or collect) the origination fee proportionately from each disbursement of the loan proceeds.

REPAYMENT

Effective 10/1/93, PLUS loans must be multiply disbursed

The repayment period for PLUS loan borrowers begins on the date the loan is disbursed, or if the loan is disbursed in more than one installment, on the date the last disbursement is made. Please note that multiple disbursement is required for PLUS loans first disbursed on or after October 1, 1993. More information on PLUS loan disbursement is found under "Requirements for Disbursement" in Section Eight. The repayment period for PLUS borrowers ends no later than 10 years after repayment begins, excluding periods of deferment or forbearance.

For PLUS borrowers the first payment of interest and principal is due within 60 days after the loan is fully disbursed, unless one of the deferment conditions described below applies.

Capitalization of interest during deferment

Deferment of PLUS loans is for principal only; the borrower must pay all interest that accrues on the loan after disbursement according to the terms of the repayment schedule, sent to the borrower when repayment begins. However, a lender may agree to capitalize the interest (add it to loan principal) when repayment of the principal begins or resumes. (See the explanation of capitalization in Section Six.) Interest that accrues during a deferment may be capitalized no more frequently than quarterly. Procedures for capitalization of interest under different deferments may vary. Borrowers should be instructed to read their promissory note and check with their lender or guaranty agency for details on capitalization of interest. If a borrower agrees to pay interest during deferment, but fails to do so, the borrower will be considered delinquent. The minimum annual payment of the borrower's total of Stafford, SLS, and PLUS loans is $600.

There is no prepayment penalty for PLUS loans. Lenders may agree to a standard or graduated ***but not an income-sensitive*** repayment schedule for PLUS loans, as long as minimum annual payment and maximum time periods for loan repayment are met. The Department encourages lenders

to provide borrowers such flexible repayment schedules as long as payments at least cover interest charges. If a graduated repayment schedule is established, however, no single payment can be more than three times greater than any other payment. Lenders are *required* to offer the option of standard or graduated loan repayments to new borrowers. A new borrower for this purpose is one who, as of July 1, 1993, has no outstanding balance on an FFEL loan on the date the loan is obtained, if the loan is obtained on or after July 1, 1993.

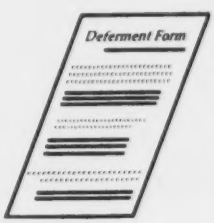
Flexible repayment *(but not income-sensitive)* offered new PLUS borrowers

On June 29, 1994, the Department issued a regulation providing detailed guidance to lenders concerning the standard, graduated, and income-sensitive repayment plans. Please refer to pages 10-29 to 10-30 of Section Two for additional information.

If, after obtaining a PLUS, the student for whom the parent borrowed enrolls less than half time, or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due the lender. As with Stafford Loans, ***it is the student's responsibility to notify the lender of the date on which he or she ceases to be enrolled at a participating school at least half time***. The school also must promptly inform the lender when the student for whom the parent borrowed drops below half-time status. (See the information on establishing a withdrawal date under "Repayment" in Section Two.)

Remind students to keep lenders informed!

DEFERMENT



As with Stafford Loans, PLUS loan borrowers can postpone repayment of loans under certain conditions, but as mentioned earlier, the borrower is responsible for paying the interest on PLUS loans during periods of deferment. The borrower must request a deferment either verbally, or more often, on a form provided by the lender. Because, as noted above, the repayment period on a PLUS begins on the date of last disbursement, a deferment covering such a loan would also begin on the date of last disbursement of the loan.

With the permission of the guaranty agency, a PLUS loan application certified by the school may be considered by a lender as a request for deferment of principal while the student for whom the parent borrowed is in school, ***if there is a clear statement on the application that the borrower is requesting a deferment by checking a box or by signing the application***.

Deferments for PLUS borrowers with loans outstanding

The following deferments of repayment apply to PLUS loan borrowers with loans outstanding whose loans are disbursed before July 1, 1993, and to borrowers with FFEL loans outstanding whose loans are disbursed on or after July 1, 1993—

- full-time study by the parent borrower at an eligible school. (See Section Two under "Deferment" for the definition of an eligible school for the purpose of these deferments.);
- study by the parent borrower in an eligible graduate fellowship program, including a recognized graduate international fellowship program at a foreign university;
- study by the parent borrower in a rehabilitation training program for disabled individuals;
- up to three years during which the parent borrower is temporarily totally disabled, or during which the parent borrower is unable to work because he or she is caring for a spouse or other dependent who is temporarily totally disabled;
- periods of unemployment totalling up to two years, if during those periods the parent borrower is seeking but unable to find full-time employment; or
- full-time study by a dependent student for whom the parent borrowed a PLUS loan(as long as the student is still dependent and meets the conditions for an in-school deferment)—
  - ◊ at an eligible school. Deferment is also permitted for a dependent student's half-time study, if the student is a new borrower and obtains a Stafford Loan for the same enrollment period.
  - ◊ at an institution of higher education or a vocational school which is operated by an agency of the federal government.
  - ◊ in an eligible graduate fellowship program, or in an approved rehabilitation training program for the disabled.

The following additional deferment of repayment for a PLUS loan applies only to new borrowers. For this deferment, a new borrower is one who, on the date the promissory note is signed, has no outstanding balance on an FFEL Program loan made before July 1, 1987 for a period of enrollment beginning before July 1, 1987. The deferment is authorized for—

- periods when the parent borrower is in school at least half time, if the parent borrower has obtained a Stafford Loan (subsidized or unsubsidized) for the same enrollment period.

Deferments for new borrowers with loans first disbursed on/after 7/1/93

The following deferments of repayment apply to borrowers of FFEL Program loans who are new borrowers (meaning a borrower with no outstanding balance on any FFEL Program loan) on the date the loan is applied for, and whose first disbursement of the loan is made on or after July 1, 1993—

- at least half-time study at an eligible school;
- study in an eligible graduate fellowship program, including study outside the United States;
- study in an approved rehabilitation training program for the disabled;
- up to three years during periods in which the borrower is seeking and unable to find full-time employment;
- up to three years during periods which the lender determines will cause the borrower economic hardship. Economic hardship exists when the borrower is receiving payment under a federal or state public assistance program, or is working full time and is earning a total monthly gross income that does not exceed the greater of: a) the minimum wage or b) the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act.

  New definition of economic hardship

  The borrower may instead meet other criteria used to determine economic hardship. Specifically, the borrower may qualify if he or she is working full time and has a federal educational debt burden (including defaulted loans) that is at least 20 percent of the borrower's total monthly gross income; this income is based on full- or part- time employment and revenue received from all other sources. The borrower's income, minus the educational debt burden, must be less than 220 percent of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100 percent of the poverty line for a family of two.

In addition, a borrower may receive an economic hardship deferment under FFEL if the borrower has been granted an economic hardship deferment under either the Direct Loan, or the Federal Perkins Loan, Program, for the same period of time for which the FFEL economic hardship deferment is requested.

Other criteria for this deferment are described in the November 29, 1994 FFELP Final Rule.

Please note that an endorser on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both endorsers are simultaneously eligible for the same, or different, deferments.

SECTION FIVE: LOAN REFINANCING AND CONSOLIDATION

Refinancing and consolidation options must be presented to student borrowers during exit counseling. The following summary may assist financial aid administrators in providing information to students.

Once a borrower leaves school, he or she may consider loan refinancing and consolidation as options to make repayment easier. The student must contact his or her lender(s) to request these options, and any agreement to refinance or consolidate loans is between the borrower and lender. Students should keep in mind that loan consolidation does not increase Federal Stafford Loan limits; aggregate loan limits must include any portion of a borrower's Federal Consolidation Loan used to repay a Stafford Loan.

LOAN REFINANCING

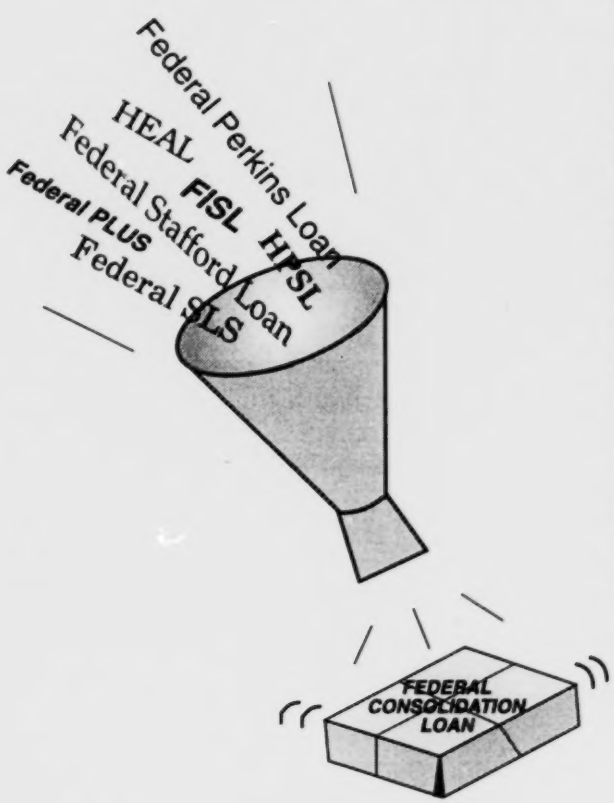
Loan refinancing is available only to Federal SLS and Federal PLUS borrowers. There are three refinancing options: refinancing to combine payment, refinancing to obtain a variable interest rate, and refinancing to make a new loan. For more detail on loan refinancing than is provided here, see the FFEL Program regulations, Section 682.209(d)-(g).

- **Refinancing to combine loans into a single payment.** A lender may refinance all loans it holds to combine them into a single repayment schedule. The interest rate on the refinanced loan will be the weighted average of the rates of all the loans included, and the repayment period may not exceed ten years from the first day of repayment for the most recent loan included. The borrower is not charged an additional insurance premium for refinancing, and a new promissory note is not required.

- **Refinancing to obtain a variable interest rate (for loans made prior to 7/1/87).** Outstanding fixed-rate SLS or PLUS loans may be refinanced at the variable interest rate. Refinancing does not extend the repayment period of the loans refinanced. The borrower may be charged a fee of up to $100 for administrative costs, but no additional insurance premium may be charged.

- **Refinancing to discharge previous loans and make a new loan (for loans made prior to 7/1/87).** If the lender refuses the borrower's request for refinancing to obtain the variable interest rate, the borrower may apply to *another* lender for a new loan to pay off (discharge) the original loans held by the previous lender. The borrower may be charged an insurance premium, but may not be charged a refinancing fee. The repayment period of the original loans may not be extended. The new loan will be subject to the deferments of repayment in effect when that loan is made. If any of the loans included in refinancing is a PLUS, the deferment conditions applicable to PLUS borrowers will apply to the new loan. If the loans are all SLS, SLS deferments will apply.

CONSOLIDATION LOANS



Loan consolidation enables a borrower with loans from different lenders to obtain one loan, with one interest rate and repayment schedule. Stafford Loans (subsidized and unsubsidized), Federal Insured Student Loans FISLs), Federal Perkins Loans, PLUS loans to students, parent PLUS loans made after 1986, SLS, Health Professions Student Loans, Health Education Assistance Loans, and Nursing Student Loan Program loans may be consolidated only by lenders that have an agreement with the Department or a guaranty agency for that purpose.

In addition, please note that a defaulted loan may be consolidated

if the borrower has made satisfactory repayment arrangements with the holder to repay the loan. Please note that, effective July 1, 1995, only three payments under a "satisfactory repayment arrangement" are required for the purposes of consolidating a defaulted loan. "Satisfactory repayment arrangement" is defined as making a required number of consecutive, voluntary, full monthly payments on a defaulted loan in order to regain eligibility for federal student aid. Please refer to page 10-69 of Section Six (Comparing Loan Programs) for further discussion of this term.

Satisfactory repayment arrangement

Loan consolidation allows a lender to pay off the existing loans and make one Consolidation Loan to replace them. Consolidation of loans may include, in addition to unpaid principal and interest, late charges and collection costs applied to those loans. A guaranty agency may assess collection charges or late fees up to 18.5 percent of the outstanding principal and interest on a defaulted FFEL Program Loan that is included in a Federal Consolidation Loan.

Consolidation Loan eligibility

Generally, a borrower submits a Consolidation Loan application to a lender holding at least one of the loans to be consolidated. If none of those lenders agree to consolidation, the borrower may apply to any other lender participating in the Consolidation Loan Program. A Consolidation Loan must be made without security or endorsement, and the lender making the loan must comply with the laws and regulations governing consolidation of loans. A lender must offer the option of standard, graduated, or income-sensitive repayment to a borrower whose Consolidation Loan application is received by the lender on or after January 1, 1993. These options must also be offered to individuals who have no outstanding principal or interest balance on an FFEL Program Loan when the Consolidation Loan is made at any point on or after July 1, 1993.

Options for repayment are described in detail in a regulation published on June 29, 1994.

Please note that since July 1, 1994, if a borrower is unable to obtain a Federal Consolidation Loan from a lender eligible to make such loans, the borrower may apply to the U. S. Department of Education for a Federal *Direct* Consolidation Loan. The borrower must certify that he or she has been unable to obtain from an eligible lender a (Federal) Consolidation Loan, or a (Federal) Consolidation Loan with income-sensitive repayment terms acceptable to the borrower. Guidance regarding eligibility criteria

and repayment plans for Federal Direct Consolidation Loans is set forth in a Direct Loan Final Rule published December 1, 1994 for the 1995-96 academic year (and subsequent academic years) for the new William D. Ford Federal Direct Loan Program. The eligibility criteria for Federal Direct Consolidation Loans differ from the criteria listed below for Federal Consolidation Loans.

To be eligible for a Federal Consolidation Loan, a borrower—

- must be in the grace period or in repayment status on all loans being consolidated;
- if in default, must have made satisfactory arrangements to repay the defaulted loan. Please note that for purposes of consolidating a defaulted loan, a borrower is required to make three consecutive reasonable and affordable monthly payments. (This provision is effective as of July 1, 1995.) For clarification on what constitutes a "reasonable and affordable monthly payment", please refer to the section entitled "Loan Rehabilitation" on pages 10-68 to 10-69;
- must not have another consolidation loan application pending;
- agrees to notify holder of any changes in address; and
- certifies that the lender holds the borrower's outstanding loan that is being consolidated, or that the borrower has unsuccessfully sought a loan from the holders of the outstanding loans and was unable to secure a Consolidation loan from the holder.

NOTE:
Borrowers no longer will be required to have a debt of at least $7,500 in loans eligible for consolidation in order to get their loans consolidated. This was a requirement for Consolidation Loans made on or after January 1, 1993 but prior to July 1, 1994.

Consolidation of loans of married couples

Since January 1, 1993, a married couple may consolidate their individual loans if they agree to be held jointly (and separately) liable for repayment of the Consolidation Loan regardless of the amount of their individual debts, and in spite of any future change in their marital status. If one spouse dies, becomes totally and permanently disabled, has collection of his or her loan obligation stayed by a bankruptcy filing, or has that obligation discharged in bankruptcy, the other borrower remains obligated to repay the loan.

Both spouses must meet the eligibility requirements listed above in order to qualify for a Consolidation Loan. However, only one spouse must meet the certification requirement listed before the "Note" on the previous page.

Applying for a Consolidation Loan

As part of the application process for a Consolidation Loan, the borrower must give the lender all relevant information concerning his or her existing loans. For Consolidation Loan applications received by a lender on or after January 1, 1993, a borrower may be allowed to add eligible loans received before the date of consolidation to an existing Consolidation Loan, if the loans are added within 180 days of the date the Consolidation Loan is made.

The interest rate for Consolidation Loans disbursed before July 1, 1994 is 9 percent or the weighted average of the interest rates of the loans consolidated (rounded to the nearest whole percent), whichever is greater. There is no minimum interest rate for Consolidation Loans disbursed on or after July 1, 1994. In determining the weighted average of interest rates of loans consolidated, the interest rate used is that in effect for each loan at the time the borrower's repayment obligations have been discharged on all loans selected for consolidation. For example, for a Stafford Loan at the 8 changing to 10 percent rate, or for an SLS with a variable rate, the interest rate used would be the rate at the time the Stafford or SLS loan was discharged by payment from the consolidating lender.

Deferment and repayment

For Consolidation Loan applications received before January 1, 1993, the borrower is responsible for the interest on the loans during periods of deferment; however, the lender may agree to capitalize the interest that accrues during the deferment. For Consolidation Loan applications received by the lender between January 1, 1993 and August 10, 1993, interest during periods of deferment is paid by the federal government. For loan applications received on or after August 10, 1993, borrowers will be entitled to an interest subsidy during deferment *only* when the Consolidation Loan is made up exclusively of subsidized Stafford Loans.

For borrowers with Consolidation Loans made before July 1, 1993, deferments are the same as those for PLUS borrowers with loans disbursed before July 1, 1993 (see page 10-48). For Consolidation Loans first disbursed on or after July 1, 1993 to borrowers with no outstanding

FFEL Program loans, deferments are the same as those for any new FFEL borrowers with loans disbursed on or after July 1, 1993 (see pages 10-35 to 10-36).

Students should understand that consolidation of Stafford, Perkins, and SLS loans may result in fewer deferment options than were available to them under those loan programs, and may result in a higher interest rate. However, since Consolidation Loans may have repayment periods as long as 30 years, the borrower's monthly repayment amount may be reduced.

There are no insurance premiums or other fees for consolidation of loans.

Generally, the first payment on the Consolidation Loan is due within 60 days after consolidation. (The repayment *period* begins on the day the Consolidation Loan is disbursed.) There are a number of repayment options, including graduated repayment or income-sensitive repayment, as mentioned above. The repayment period varies from 10 to 30 years, depending on the amount consolidated and other student loans the borrower may have. If the amount to be consolidated is less than $7,500, for example, the repayment period may not exceed 10 years. For more detail on repayment of Consolidation Loans than is provided here, see the FFEL Program regulations, Section 682.209(h).

SECTION SIX: COMPARING LOAN PROGRAMS

In Sections Two, Three, and Four the loan provisions that differ significantly between the Federal Stafford and Federal PLUS programs were discussed; here, those that are essentially the same for all FFEL programs are presented, along with comparison of some program elements. A comparison of deferment provisions for the FFEL programs is at the end of this section.

Common application for Stafford Loans

A common loan application form and promissory note that can be used to apply for a subsidized or unsubsidized Stafford Loan is now available from guarantors and lenders. The common deferment form was mailed to all guaranty agencies on March 30, 1994. The PLUS common application was approved on April 29, 1994.

The Higher Education Amendments of 1992 encourage lenders to treat all loans of the same type as one loan for billing purposes and deferment periods. This means that a borrower with several Stafford Loans held by a single lender would receive one billing notice for all of those loans, and any deferment received for one of the loans would be extended to all of the borrower's Stafford Loans held by that lender. In addition, guaranty agencies must try to ensure that a borrower's loans are maintained by one lender, one holder of the loan, one loan servicer, and one guaranty agency, to reduce the number of agencies contacting the borrower. These efforts to simplify loan repayment will be made with the cooperation of the borrower.

On the following page is a comparison of loan limits for Stafford, unsubsidized Stafford, and PLUS borrowers. For more detail, especially on loan limits for less than a full year of study, see "Loan Limits" in Sections Two, Three, and Four.

Loan Limits for subsidized and unsubsidized Stafford Loans, and for PLUS Loans

	ANNUAL	CUMULATIVE
STAFFORD LOANS (subsidized)	**$2,625** first-year undergraduate **$3,500** second-year undergraduate in current program of study (1) **$5,500** upon attaining 3rd-year status in current program of study (1) **$8,500** for graduate/professional degree study (2)	**$23,000** undergraduate study (excludes any capitalized interest) (1) **$65,500** graduate study (includes amounts borrowed for undergraduate study) (1)
STAFFORD LOANS (unsubsidized)	**$4,000** first two undergraduate years of study (1) **$5,000** upon attaining 3rd-year status in current program of study (1) **$10,000** for graduate/professional degree study (1)	**$23,000** dependent undergraduate study (1) **$46,000** independent undergraduate study **$138,500** graduate study (includes amounts borrowed for undergraduate study) (1)
PLUS LOANS	cost of attendance minus other aid (1)	

(1) Effective for loans first disbursed on or after 7/1/93

(2) Effective for periods of enrollment beginning on/after 10/1/93

Consolidation Loans may have different interest rates and deferment conditions from the loans included in the consolidation package. Borrowers should be reminded during exit counseling to look at differences in loan terms and conditions when considering loan consolidation. See the preceding section for information about consolidating loans.

PROVISIONS COMMON TO ALL LOANS

The following conditions are essentially the same for all FFEL borrowers:

Capitalization

Capitalization is the addition of accrued interest and unpaid insurance premiums (if applicable) to a borrower's loan principal. Interest accruing during the period from the date of first disbursement of the loan to the beginning of the borrower's enrollment period, and during the period from the date the first loan payment was due until it was made, may be capitalized on the date repayment is scheduled to begin. Interest may be capitalized quarterly, and again when repayment begins or resumes—

- during an in-school or grace period, if capitalization is authorized in the promissory note, or approved by the borrower;
- during approved deferment periods (for example, during deferment of principal for an SLS, PLUS, or unsubsidized Stafford Loan); or
- during an approved forbearance period, such as one following a required medical or dental internship.

If a borrower has agreed to pay interest during a deferment or forbearance period or during an in-school grace period, and fails to resolve a delinquency in making those payments, the lender also may, after notifying the borrower, capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance.

Borrowers should understand that capitalization of interest increases the principal balance of the loan.

Forbearance

Forbearance definition

If, because of poor health or other unanticipated personal problems, a borrower (or endorser) is willing but financially unable to make the required payments on an FFEL, he or she may request the lender to grant forbearance. Forbearance means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than were previously scheduled.

The lender may grant forbearance of principal, interest, or both. Forbearance usually requires a *written agreement* between borrower and lender. When forbearance is granted, the borrower is always responsible for repayment of accrued interest charges. While lenders do not have to grant forbearance (in most cases), they are encouraged to do so in order to prevent the borrower from defaulting on the loan.

If two persons are jointly liable for repayment of a PLUS or Consolidation Loan, the lender may grant forbearance only if *both* persons are unable to make the required payments.

A lender may grant forbearance to permit a borrower or endorser to resume payment on a loan after default. Such a forbearance agreement requires a new signed repayment obligation.

Administrative forbearance

Administrative forbearance does not require the agreement of the borrower, and may be granted only under specified conditions. Upon notifying the borrower, a lender may grant forbearance for payments of interest and principal that are overdue—

- when a deferment is granted, and the lender later learns that the borrower did not qualify for the deferment;
- at the beginning of a deferment period;
- during the period between the time the borrower entered repayment until the first payment was due;
- during a period of national military mobilization, such as occurred during Operation Desert Storm or Desert Shield; or
- during a period prior to a borrower's filing of bankruptcy.

The Higher Education Amendments of 1992 permit a lender to grant administrative forbearance—

- during a period not to exceed 60 days after a lender learns of a borrower's death or total and permanent disability, and documentation of those conditions is received;

- for a period of delinquency at the time a loan is sold or transferred, if the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer; or

- for periods necessary to determine a borrower's eligibility for loan discharge because of past attendance at a closed school, or because of false certification of loan eligibility; or, for periods necessary for the Department to determine a borrower's or endorser's eligibility for bankruptcy.

Mandatory forbearance

Lenders *must* grant mandatory forbearance of both principal and interest (if requested) to FFEL borrowers in the circumstances listed below. The documentation necessary to apply for a forbearance is described in part 682.211(i)(3) of the FFEL regulations.

- If a borrower serving in a medical or dental internship or residency program has already received the two-year internship deferment. Forbearance in this instance must be cessation of all payments unless the borrower requests forbearance as an extension of time for making payments, or requests that payments be reduced during the forbearance. The forbearance is renewable at 12-month intervals while the borrower remains in the internship/residency program. The borrower must request forbearance in writing for each 12-month period.

- If a borrower's amount of student loan payments is collectively equal to or greater than 20 percent of the borrower or endorser's total monthly income. The forbearance is renewable in yearly increments for periods of time that collectively do not exceed three years.

- If a borrower is serving in a national service position for which he or she received a national service education award under the National and Community Service Trust Act of 1993. The forbearance is renewable in yearly increments for as long as a borrower serves in this capacity.

- If a borrower is eligible for forgiveness of a loan under the Federal Stafford Loan Forgiveness Demonstration Program because of certain public service under the terms explained in

New mandatory forbearance provisions

section 682.215(b) of the FFEL regulations (if the program is funded). The length of time for which a forbearance may be granted is the same as described above for borrowers serving in national service positions.

- If a borrower is eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense under 10 U.S.C. 2171.

Mandatory administrative forbearance

Lenders must grant a mandatory administrative forbearance to FFEL borrowers in the circumstances listed below.

- During a period of up to three years where the effect of a variable interest rate change causes the extension of the maximum repayment term, under a standard or graduated repayment schedule.

- During a period of up to five years when an income-sensitive repayment schedule causes the extension of the maximum repayment term.

- Exceptional circumstances such as a local or national emergency or a military mobilization. Borrowers subject to a military mobilization must provide supporting documentation as proof.

- The geographical area in which the borrower resides has been designated a state or federal disaster area. Borrowers in this situation are not required to submit a request for forbearance or to submit supporting documentation.

Cancellation

If an FFEL borrower dies or becomes totally and permanently disabled, the borrower's obligation to repay the loan is cancelled and the holder of the loan may not collect the loan from an endorser or from the borrower's estate. Certification of total and permanent disability from a qualified physician is required for loan cancellation. A PLUS loan borrower's debt will be cancelled if the student for whom the parent borrowed the PLUS dies. The endorser (cosigner) of a loan cancelled due to death or total disability is not obligated to repay the loan. However, if parents borrow jointly under the PLUS program as endorsers or if a couple consolidates a loan jointly, the death or total disability of one parent or spouse does not

relieve the other of responsibility for repaying the loan. This is true unless both borrowers have a condition (not necessarily the same one) under which a borrower can qualify for loan cancellation; in this case, both individuals' loans can be cancelled.

If a borrower whose loan was written off wishes to borrow again under the FFEL programs, the borrower must reaffirm the previous loan amount. (As explained in the November 29, 1994 FFELP Final Rule, "written off" means that the Department or the appropriate guaranty agency has ceased collection activity on a defaulted loan after several unsuccessful attempts have been made to collect on the loan.) In addition, the borrower must make "satisfactory repayment arrangements" on the defaulted debt. Please see page 10-69 for an explanation of this term.

Reaffirmation-definition

Reaffirmation means legal acknowledgement of the loan, which may require the borrower to—

- sign a new promissory note or repayment schedule for the previously cancelled loan; or
- make a payment on the loan.

Please note that when loans are reaffirmed, they count toward the borrower's aggregate loan limits.

Bankruptcy discharge

A borrower may also have his or her loan discharged in bankruptcy. Please note that a borrower whose FFEL Loan was previously discharged in bankruptcy is no longer required to reaffirm his or her loan obligation. This is consistent with the Bankruptcy Reform Act of 1994 enacted October 22, 1994. Passage of this law affirms that borrowers who have previously sought bankruptcy must not be discriminated against by lenders when applying for loans. However, past bankruptcy can be included as a factor in determining the future creditworthiness of a loan applicant.

Changes in reaffirmation policy

There is another category of borrowers for which the Department no longer requires reaffirmation: those whose debts were previously cancelled due to a determination of permanent and total disability.

A borrower whose loan debt was cancelled due to total and permanent disability, and who later applies for an FFEL Loan, must—

- provide a physician's certification that he or she is able to engage in "substantial gainful activity" such as working or attending school; and

- sign a statement affirming that the loan cannot be cancelled in the future based on present impairment, unless the borrower's condition substantially deteriorates.

Other loan cancellation provisions

Closed school and false certification discharges

A student borrower's obligation to repay a Stafford or SLS loan or a parent borrower's obligation to repay a PLUS received on or after January 1, 1986 will be cancelled if the borrower was unable to complete his or her program of study because the school closed, or if the borrower withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if deemed appropriate by the Secretary.

Also, the borrower's obligation to repay may be cancelled if the borrower's eligibility for the loan was falsely certified by the institution. If the school falsely certified that a student had the ability to benefit from its training, or signed the borrower's name without authorization by the borrower on the loan application or promissory note, the loan may be discharged under this provision. This is considered false certification by the school based (in the first case) on student eligibility to borrow, and (in the second case) on unauthorized signature.

In the case of an electronic funds transfer, the borrower must certify that he or she did not endorse the loan check or sign the authorization for electronic funds transfer, or authorize the school to do so. The borrower must state that he or she did not receive the proceeds of the contested disbursement either through actual delivery of the loan funds or by a credit to the school's account.

Interest and collection fees, as well as loan principal, will be discharged. The Department will attempt to collect from the school the loan amount discharged, including any refund owed the student.

If a borrower's defaulted loans are discharged under these provisions, the borrower, if otherwise eligible, regains eligibility for federal student financial assistance (SFA) grants and loans. In addition, any adverse credit history will be deleted from credit reporting agencies' records. The period of study the student was unable to complete because of a school's closing will not be counted in calculating the student's eligibility for additional student financial assistance.

The Department published a Final Rule dated April 29, 1994 which clarifies the eligibility criteria and application procedures for a closed

school or false certification discharge. Subregulatory guidance is provided in a September 1994 "Dear Colleague" letter (94-L-166).

Loan forgiveness

The Department has published a regulation setting forth guidance for a program that would repay a portion of Stafford Loans made to eligible borrowers who teach full time or are employed as nurses full time in areas where there is a shortage of qualified professionals in those fields, or who volunteer for certain kinds of community service. According to the regulation, an eligible borrower is one who had no outstanding debt on an FFEL loan as of October 1, 1989. A borrower who is in default on an FFEL loan, and has not made satisfactory arrangements to repay it, is not eligible.

To qualify for loan forgiveness, the borrower must teach in a teacher shortage area that meets the requirements for Federal Perkins Loan cancellation, and be teaching a subject for which there is a shortage of teachers, as defined by the state. The borrower must provide to the Department certification that he or she meets these requirements. For more information, borrowers should contact their lender or guarantor. As mentioned, the final regulation on loan forgiveness is now available; it was published June 16, 1994 and has an effective date of July 1, 1995.

Loan forgiveness program not yet funded

Please note that this program is not yet funded. If and when it does become funded, a **Federal Register** notice will be published to notify the public.

Repayment by the Department of Defense

Currently, if a student borrower serves as an enlisted person in certain specialties in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard, the Department of Defense, as an enlistment incentive, will repay a portion of the loan. For more information the student should be directed to contact his or her local Army or Air National Guard recruiting office. This is a recruitment program and does not pertain to an individual's prior service.

Loan repayment under this program is made directly to the lender, and is not considered financial aid. Such a repayment is considered as income to the student when calculating loan eligibility.

Default

Remind students to keep lenders informed!

Most borrowers repay their loans on time, but some do fall behind on their payments, for a variety of reasons. You should counsel students to maintain contact with the lender if they have repayment problems, to avoid delinquency and default.

Late payment charges

When a scheduled payment on a Stafford, SLS, or PLUS loan is not made on time, the loan becomes delinquent. The lender is required to make repeated attempts to reestablish payment, including attempts to contact the borrower by phone and letter, the use of skip-tracing assistance, and the use of the guarantor's preclaims assistance and supplemental precaims assistance. If a borrower is late in making a payment, the lender may require the borrower to pay a late charge. The borrower may also be required to pay collection costs, such as attorney's fees and court costs, if payment of such costs is provided for in the borrower's promissory note. See the FFEL Program regulations, Section 682.410 and Section 682.411, for more detailed information on the loan collection efforts required of lenders.

Default - definition

For loans that entered delinquency before April 7, 1986, default is defined as the failure to make payments when due if that failure continues for a period of 120 days in the case of a monthly repayment schedule, and 180 days for less frequent installments. For loans that entered delinquency on or after April 7, 1986, default is the failure to make payments when due if that failure continues for a period of 180 days for a loan repayable in monthly installments, and 240 days for a loan repayable in less frequent installments.

Consequences of default

If the borrower's delinquency persists, the lender may accelerate the loan, that is, demand the entire balance of the loan in one payment. The lender may file a default claim with the guaranty agency, which reviews the lender's collection efforts before reimbursement. If the guaranty agency pays the default claim, the agency will continue collection efforts. Before reporting the default to a credit bureau or assessing collection costs, the guaranty agency will provide the borrower with a written notice of its proposed actions, an opportunity to enter into a repayment agreement, and an opportunity for an administrative review of the status of the loan. Once a guaranty agency notifies a credit bureau of a borrower's default, the credit bureau may provide that information to inquirers for up to seven years from the date the loan is first reported as a default; for up to seven years from the date the guaranty agency pays the default claim; or for a borrower who enters repayment after default, and again allows the loan to default, up to seven years from the date the loan enters default the second time.

Collection efforts may include garnishing up to 10 percent of the defaulter's disposable pay, withholding or "offsetting" part or all of a defaulter's federal or state income tax refund, and filing suit against the borrower. Descriptions of such enforcement procedures are provided in the April 29, 1994 FFELP Final Rule.

Elimination of statute of limitations on student loan collections

Concerning wage garnishment as an enforcement measure, each guaranty agency's procedures are subject to approval by the Department. Wage garnishment provisions are described in the Higher Education Amendments of 1992 under Section 488A. If the defaulter is sued, garnishing of wages may be included in the court's ruling. The Higher Education Technical Amendments of 1991 (P.L. 102-26) provided for continuation of garnishment, offset action, or a lawsuit regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts. The Higher Education Amendments of 1992 made abolition of the statutes of limitation permanent, and applied the law to any pending cases and outstanding debts.

Loans written off or compromised

A student with a defaulted loan is no longer eligible for any federal student aid under the SFA programs. Even if a defaulted borrower's debt has been written off as uncollectable and closed out by reporting the principal amount to the Internal Revenue Service as taxable, the borrower is still considered to be in default, and ineligible for federal student aid. If a compromise agreement has been reached in which the borrower makes an agreement with the holder of the loan to settle the debt, the borrower may be eligible for additional federal student aid. If the borrower chooses to reaffirm his or her loan obligation and makes satisfactory arrangements to repay the debt, he or she may regain eligibility for SFA programs.

SAR will note defaulted ED loans

If a borrower is in default on an SFA loan held by the Department of Education or by a guaranty agency, and applies for federal student aid, the Student Aid Report (SAR) received after application will indicate that the borrower is in default and thus not eligible for aid under the SFA programs. If the borrower has made satisfactory arrangements to repay the loan, the SAR will indicate that the borrower is eligible, but will include a warning that if scheduled payments are not made on the loan, future federal student aid will be denied.

Once the student allows a loan to go into default, his or her opportunity to obtain a deferment is lost, and he or she will not be able to receive any federal financial aid until the obligation is discharged, or satisfactory arrangements to repay the loan have been made with the lender or guarantor. A lender or guarantor, however, may grant forbearance to a borrower whose loan is delinquent or in default.

If a loan obligation has been discharged in bankruptcy after the borrower has defaulted, it is no longer considered to be in default, and the borrower

is eligible for further federal student aid. However, as noted under "Cancellation," the borrower must reaffirm the debt in order to be eligible for future FFEL Program loans.

Loan rehabilitation

There are some instances when a student or parent borrower who has defaulted on a guaranteed student loan or owes repayment on a grant may again borrow under SFA programs, if otherwise eligible. If the student or parent borrower has made satisfactory arrangements to repay the debt owed on a loan or grant, and provides the school with a statement to that effect from the appropriate guarantor in the case of a FFEL, or from the school owed in the case of a grant or Perkins Loan, the applicant would be eligible for a Stafford or PLUS loan.

A Loan Rehabilitation Program is now available to borrowers who have defaulted on an FFEL and meet certain conditions. The Higher Education Amendments of 1992 require a guaranty agency to provide a loan rehabilitation program that will allow a defaulter the opportunity to make 12 "reasonable and affordable" consecutive monthly payments on a defaulted FFEL loan. The Department expects each guaranty agency to make a determination of what constitutes a reasonable and affordable payment amount on a case-by-case basis, after examining the borrower's financial information. A guaranty agency is required to document its determination of the appropriate payment amount only if the payment is less than $50.00. Each borrower must be provided with a written statement of the payment amount, and an opportunity to object to those terms. This guidance is published in an FFEL regulation published June 28, 1994.

After the borrower makes 12 consecutive payments, the guaranty agency (or the Department, if the Department is holding the loan) will decide whether the borrower is a good candidate for rehabilitation and, if so, will try to sell the loan to a lender. A borrower who has been in repayment for more than 12 months at the time he or she requests rehabilitation is immediately eligible, if those payments were determined to be "reasonable and affordable".

Payments secured from a borrower on an involuntary basis, through means such as wage garnishment, cannot be counted towards the borrower's required 12 consecutive monthly payments.

Please note that once eligible, the debtor must continue to make payments while the loan transfer process is conducted by the guaranty agency. Therefore, because of the ways its loan cycle processing

procedures are set up, it is possible that the borrower will send in more than 12 payments before the loan is rehabilitated.

A borrower who wishes to rehabilitate a loan on which a judgement has been entered must sign a new promissory note prior to the sale of the loan to an eligible lender.

Guaranty agencies must inform borrowers of the consequences of loan rehabilitation after 12 months. For example, a borrower's monthly payment amount will usually increase. Also, once the loan is rehabilitated, it is no longer in default and the borrower, if otherwise eligible, may again receive assistance from SFA programs, and will regain any remaining deferment benefits. The holder of the rehabilitated loan must notify promptly at least one credit bureau of the loan's rehabilitated status. The notification of credit bureaus is an important benefit to borrowers under this program. Students with questions about loan rehabilitation should be instructed to contact the agency holding their defaulted loan or loans.

Reinstatement of SFA eligibility through "satisfactory repayment arrangement"

The Higher Education Amendments of 1992 also provide for reinstatement of eligibility for all SFA programs for a borrower with a defaulted loan or loans, whether or not the loan has been repurchased, after the borrower has made six consecutive, voluntary, full monthly payments. This is known as a "satisfactory repayment arrangement". Please note, as explained on page 10-53 of Section Five ("Loan Refinancing and Consolidation"): for purposes of consolidating a defaulted loan, only three of these payments are required under a satisfactory repayment arrangement. This particular provision is effective July 1, 1995.

Defaulted borrowers who have made six payments as described above must be informed by guaranty agencies of the possibility of loan rehabilitation (after six more payments are made by the borrower).

A borrower may be given the opportunity to reinstate his or her defaulted loan only once. Note that reinstatement of eligibility does not bring the loan out of default, and the borrower is not eligible for deferment. Dear Colleague letter GEN-92-21 (October 1992) provides additional information about loan rehabilitation and loan reinstatement. In addition, the June 28, 1994 FFELP Final Rule sets forth guidance on these topics.

PROGRAM DIFFERENCES

The following differences between Stafford, unsubsidized Stafford, and PLUS loans should also be noted:

Family contribution

A subsidized Stafford Loan applicant must have his or her expected family contribution (EFC) as determined by an approved need analysis system, plus other estimated student aid awarded, subtracted from the cost of attendance at his or her school. If the student's remaining need is less than the subsidized Stafford Loan maximum, the student's subsidized Stafford Loan cannot exceed that lesser amount.

In contrast, income and EFC do not have to be considered when determining the amount of a PLUS or unsubsidized Stafford Loan, although other estimated student aid awarded is considered. As with all SFA programs, the PLUS or unsubsidized Stafford Loan, when added to other student aid, cannot exceed the cost of attendance.

Beginning of repayment period

The repayment period for a Stafford Loan (subsidized or unsubsidized) begins on the day after the expiration of the six-month grace period, which begins when the borrower leaves school. The repayment period for a PLUS or Consolidation Loan begins on the day the loan is disbursed.

In the SLS Program in place prior to July 1, 1994, the borrower has the option to delay repayment for a period consistent with the grace period in the Stafford Loan Program. The lender may capitalize interest during this period.

Deferment

The chart and summary on the following pages provides deferment information on Stafford Loans (subsidized and unsubsidized), SLS, PLUS, and Consolidation Loans, and may be useful to students with previous loans.

Federal Family Education Loan Program Deferment Provisions

Deferment Condition*	Time Limit	Federal Stafford (formerly GSL), Unsubsidized Stafford & Federal SLS Programs			Federal PLUS Program (Parent borrowers only)				Federal Consolidation Loan Program	
		Refinanced and Prior Borrowers[1] of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87-6/30/93)	New Borrowers[3]	Loans Made Before 8/15/83	Refinanced and Prior Borrowers of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87-6/30/93)	New Borrowers[3]	Prior Borrowers (before 7/1/93)	New Borrowers[4] (after 7/1/93)
Full-time study	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Half-time study[5]	None	N	Y	Y	N	N	Y	Y	Y	Y
Graduate fellowship study[6]	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rehabilitation training	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
U.S. Armed Forces[7] or Public Health Service, or;	3 years	Y	Y	N	Y	N	N	N	N	N
Nat'l Oceanic & Atmospheric Admin. (including Military and Public Health Service)	3 years	N	Y	N	N	N	N	N	N	N
Peace Corps	3 years	Y	Y	N	Y	N	N	N	N	N
ACTION	3 years	Y	Y	N	Y	N	N	N	N	N
Temporary total disability (borrower, spouse, or dependent)	3 years	Y	Y	N	Y	Y	Y	N	Y	N
Tax-exempt organization	3 years	Y	Y	N	Y	N	N	N	N	N
Teaching in teacher shortage area	3 years	N	Y	N	N	N	N	N	N	N
Eligible internship or residency program[9]	2 years	Y	Y	N	Y	N	N	N	N	N
Unemployment	2 years	Y	Y	N	Y	Y	Y	N	Y	N
Mother entering work force[8]	1 year	N	Y	N	N	N	N	N	N	N
Inability to secure full-time employment[10]	3 years	N	N	Y	N	N	N	Y	N	Y
Economic hardship[11]	3 years	N	N	Y	N	N	N	Y	N	Y
Parental leave[12]	6 months	Y	Y	N	N	N	N	N	N	N
Parent PLUS borrowers[13]		N/A	N/A	N/A	Y	Y	Y	N	N/A	N/A

* Y: Deferment Applies N: Deferment Does Not Apply

Federal Family Education Loan Deferment Provisions

THIS CHART IS TO BE USED FOR REFERENCE ONLY. REFER TO DCL GEN-92-21, APPENDIX C AND PART G OF THE HIGHER EDUCATION ACT IF YOU HAVE ANY QUESTIONS REGARDING A PARTICULAR BORROWER'S ELIGIBILITY TO RECEIVE A DEFERMENT.

1. Includes student Federal PLUS borrowers and Federal Consolidation Loans made prior to 11/1/83 according to Section 439(o) of Pub. L. 89-329.

2. A borrower who, on the date he or she signs the promissory note, has no outstanding balance on (1) a Federal Stafford, Federal SLS, or Federal PLUS loan made before 7/1/87 for a period of enrollment beginning before 7/1/87 or (2) a Consolidation Loan that repaid a loan made before 7/1/87 for a period of enrollment beginning before 7/1/87.

3. A new borrower who, on the date he or she applies for a loan, has no outstanding balance on a Federal Stafford (formerly GSL), unsubsidized Stafford, Federal SLS, Federal PLUS or Federal Consolidation Loan *and* whose first disbursement of the loan is made on or after 7/1/93.

4. Consolidation Loans made on or after 7/1/93 to borrowers who have no outstanding FFEL Program loans *other than* the FFEL Program loans to be consolidated.

5. A Federal Stafford (formerly GSL), unsubsidized Stafford, or Federal SLS borrower or a Federal PLUS parent borrower, whose first loan was made or disbursed between 7/1/87 and 6/30/93, is eligible for deferment while engaged in at least half-time study at a participating school *if* the borrower obtains a Stafford or SLS Loan for that period of enrollment. New borrowers under these loan programs who receive a first disbursement on or after 7/1/93 are not required to borrow a loan to qualify for the deferment.

6. Deferment approval for a new borrower enrolled in a graduate or postgraduate, fellowship-supported program (e.g. a Fulbright Fellowship) will extend for the duration of the fellowship period.

7. Public Law 102-26 authorized, for the period of April 9, 1991 to September 30, 1997, special Federal Stafford Loan deferment and grace period provisions for reservists called up for active duty service in connection with Operation Desert Shield and Operation Desert Storm. These benefits are:

    a. A military deferment for the duration of service in connection with Operation Desert Shield or Operation Desert Storm, even if the length of the deferment exceeds the maximum deferment authorized in sections 428(b)(1)(M)(ii) or 427(a)(2)(C)(ii);

    b. A 6-month post-deferment grace period following an Operation Desert Shield or Operation Desert Storm military deferment; and

Federal Family Education Loan Deferment Provisions (cont'd.)

c. A one-time 6-month post-deferment grace period following the period of in-school deferment for a borrower who received a military deferment and later becomes eligible for an in-school deferment.

8. Periods of service in an eligible internship program (See 34 CFR Section 682.210(g)); or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training. Lenders are now required to grant forbearance to medical interns and residents who have expended their 2-year residency deferments before they have completed their intern and residency requirements.

9. A mother with preschool-age children, who is entering or re-entering the work force, and is being paid no more than $1.00 above the minimum wage.

10. Borrower must be seeking, but unable to find, full-time employment.

11. A borrower is considered to have an economic hardship if the borrower—

    a. is receiving payment under a federal or state public assistance program;

    b. is working full time but earning an amount that does not exceed the greater of—

        1) the federal minimum wage; or

        2) an amount equal to 100 percent of the poverty line for a family of two as determined according to section 673(2) of the Community Service Block Grant Act; or

    c. meets other regulatory criteria which take into account the borrower's debt-to-income ratio as a primary factor. Specifically, the borrower may qualify if—

        1) he or she is working full time and has a federal educational debt burden (including defaulted loans) that is at least 20 percent of the borrower's total monthly gross income; this income is based on full- or part- time employment and revenue received from all other sources. The borrower's income, minus the educational debt burden, must be less than 220 percent of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100 percent of the poverty line for a family of two.

        2) he or she is not working full time and has a total monthly gross income that does not exceed twice the

amount under "b" above, and, after deducting the borrower's monthly education loan payments, the remaining amount of the borrower's income does not exceed the amount under "b" above.

d. has been granted an economic hardship deferment under either the Direct Loan, or the Federal Perkins Loan, Program for the same period of time for which the FFEL economic hardship deferment is requested.

12. Period for which the borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child immediately following adoption. The borrower may neither be attending school nor be gainfully employed, and must have been enrolled on at least a half-time basis at a participating school at some time during the 6 months preceding the period of parental leave.

13. Parent borrowers of Federal PLUS loans first made and disbursed prior to July 1, 1993 are also eligible for deferment during periods when a student for whom the parent borrowed a Federal PLUS Loan is dependent and meets one of the following conditions for deferral: in-school status (full- and half-time), graduate fellowship, or rehabilitation training. (**Note**: If the son or daughter is a half-time student, he/she must have first borrowed a Federal Stafford Loan after 7/1/87, but before 7/1/93, and be receiving a Federal Stafford, unsubsidized Stafford, or Federal SLS Loan for the period of enrollment.)

SECTION SEVEN: THE LOAN APPLICATION PROCESS

A borrower may obtain an FFEL application from a guaranty agency, a lender, or a school that participates in the FFEL Program. A common loan application and promissory note was provided to guarantors for use by students applying for a subsidized or unsubsidized Federal Stafford Loan certified on or after July 1, 1994.

You should have received a supply of the new common loan application/ promissory note *without* a guaranty agency's name in the upper right corner, along with a supply of forms that may have a guaranty agency's logo in the corner. Please note that even if a guaranty agency's name appears in the upper right corner of the form the student uses, there is no reason another guaranty agency cannot process the form.

If guaranty agencies use the common form as part of a renewal application process, borrower information and a prior lender and code number may be preprinted on the form, if the borrower has previously received a loan from that lender.

EFT and new loan application

A guaranty agency may use an electronic application process, but must include all of the information on the common loan application, the promissory note, and borrower's rights and responsibilities as part of the application process. The student's authorization on the application to transfer loan proceeds by Electronic Funds Transfer (EFT) is an approved means of crediting the student's loan account with the loan proceeds. If your school participates in EFT and the borrower does not authorize transfer of funds (Item 15 on the application) or leaves the item blank, the lender may transfer the loan proceeds by EFT, but you will need authorization from the borrower to transfer proceeds from the school account to the student's account.

If you have a question about the new common loan application and promissory note, contact the guaranty agency in your state for clarification.

The Federal PLUS loan application is a separate application, also available from lenders and guarantors, that requests the same basic

information as the Stafford Loan application. A common PLUS loan application was approved on April 29, 1994.

If a student is unable to find a lender willing to make a Stafford Loan, he or she should contact the guaranty agency in his or her state of residence for assistance in finding a lender of last resort (LLR). See page 10-78 for more information about the LLR.

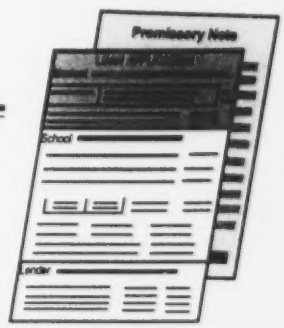
An FFEL application will contain three sections: one to be filled out by the borrower, one to be filled out by the school, and one to be filled out by the lender.

The borrower is responsible for filling out—

- the student (borrower) portion of the loan application; and
- the promissory note.

Promissory note—definition

The promissory note is a legal document obligating the borrower to repay the loan. The borrower's rights and responsibilities will be stated on the promissory note, or on other documents the borrower receives when the loan is made. The promissory note is returned to the borrower when the loan is repaid.



THE STUDENT'S (BORROWER'S) PORTION

In addition to basic information such as name, address, date of birth, and Social Security Number, questions on the student's portion of the application will ask for the student's driver's license number and loan period. The lender's name may be provided if the student has a preference, and the student will be asked for two references. The student will be asked several questions about the loans requested, and will be required to read and sign the promissory note.

THE SCHOOL'S PORTION

School determines eligibility

You are responsible for determining the student's cost of attendance and estimated financial aid. You are also expected to confirm the student's dependency status and Social Security Number. ***Thus the school, and not the lender, determines the student's eligibility for a Stafford or PLUS loan.*** (An eligible foreign school is also responsible for this

analysis, although it generally contracts with a guaranty agency or a consultant to provide the analysis.)

You must determine whether the student previously attended another eligible institution and, if so, you must request a financial aid transcript for the student. You may certify the loan application before receipt of the student's financial aid transcript, but you may not release loan proceeds to the student until the transcript is received. (In the case of a PLUS, you may *not* certify the application until the financial aid transcript is received.)

Increased school control over loan certification

Financial aid administrators may refuse to certify an otherwise eligible FFEL borrower's loan application, if the reason for the refusal is documented and provided in writing to the student. This includes the authority to refuse to certify a loan application if you believe the student is unwilling to repay the loan for which the application is intended. Similarly, you may certify a loan for an amount less than that for which the student would otherwise be eligible, if your reasons are documented and explained to the student in writing. The FFEL Program regulations, Section 682.603(e), provide cautionary information about the use of this restriction on loan certification.

Questions on the school's portion of the application will require determination of the following:

Dependency status

In order to determine the sources of income available to a student, you must establish his or her dependency status. The Higher Education Amendments of 1992 revised the definition of an independent student. The new definition was effective beginning with the 1993-94 award year.

Dependency status—see Chapter 2

For more information on dependency status, see Chapter Two of the *Handbook*.

Loan period or period of enrollment

Information concerning "cost of attendance," "estimated financial aid," and "expected family contribution" must relate to the loan period. The period of enrollment or loan period referred to on the application is the period for which the FFEL loan is intended, and must coincide with one or more of a school's academic terms, such as academic year, semester, trimester, or quarter.

Minimum enrollment period for loan certification

The *minimum* period for which a school may certify a loan application is—

- at a school that measures academic progress in credit hours and uses a semester, trimester, or quarter system, a single academic term (for example, a semester or quarter); or

- at a school that measures academic progress in clock hours, or that measures academic progress in credit hours but does *not* use a semester, trimester, or quarter system, the lesser of (1) the academic year as defined by the school in accordance with the General Provisions regulations, (2) the length of the student's program at the school, or (3) the remaining portion of the student's program that exceeds the school's academic year.

The *maximum* period for loan certification is generally the school's academic year.

Only if a summer school session overlaps two academic years do you have the discretion to decide to which of the two academic years in question the loan's enrollment period will apply. Whichever academic year is chosen, the same year must also be used for awarding campus-based aid for that period.

If a student's loan is certified after the beginning of an enrollment period, the FFEL loan may be made retroactive to cover the entire period of enrollment. For example, a student is admitted to a degree program contingent on the receipt of an acceptable academic transcript, and begins the academic term on September 6. The school receives the transcript on October 15; the school may certify the student for a period of enrollment covering the entire term (September 6 through December 20).

If tuition and fees are charged to the student at the beginning of a program that is longer than an academic year, the cost of attendance for FFEL programs should include the full amount of the tuition and fees charged in the *period of enrollment* in which the loan is made. For example, a school with a 1,350-hour program defines its academic year as 900 hours and charges its students the full $3,000 in tuition and fees at the beginning of the program. In this case, an enrolling student usually would be eligible for two Stafford Loans, because the program is longer than one academic year. The tuition and fee charge for the first Stafford Loan would be $3,000; there would be no tuition and fee component in the cost of attendance for the second Stafford Loan. However, for loans for which the first disbursement is made on or after July 1, 1993, the amount of the second Stafford Loan would be prorated, since the remainder of the

program (450 hours) would be less than the school's academic year. See "Loan Limits" in Sections Two and Three for more information on proration of loans.

Cost of attendance

An estimate of the cost of attendance (COA) at your school is required as part of the process of determining financial need. The cost of attendance requirements for all SFA programs are now the same, and are described in detail in Chapter Two of this *Handbook*.

Expected family contribution

The amount a student and his or her family are expected to pay toward the student's cost of attendance at a postsecondary school is called the federal expected family contribution (EFC).

The Higher Education Amendments of 1992 established a single need analysis system, called the EFC, for all need-based SFA programs. Beginning with the 1993-94 award year (July 1, 1993 to June 30, 1994), the EFC formula replaces both the Congressional Methodology (CM) and the Pell Grant Formula. Chapter Two of the *Handbook* explains how this new need analysis system works.

A financial aid administrator may use his or her professional judgment to adjust the EFC to account for unusual circumstances affecting the student or the student's family. Such adjustments, however, must be documented in the student's file.

Note that income realized from the proceeds of the sale of farm or business assets (capital gain) is excluded from the family income of a student in calculating that student's EFC under the Stafford Loan Program, *if* the sale results from a voluntary or involuntary foreclosure, forfeiture, or bankruptcy. Instructions concerning these exclusions of income are provided on the Free Application for Federal Student Aid (FAFSA) and on all multiple data entry forms.

Other loans can offset EFC for Stafford Loans

Loans made on behalf of a student under PLUS, unsubsidized Stafford Loans, loans made by a school to assist the student, and state-sponsored and private education loans all can be used to offset (substitute for) part or all of the student's EFC for Stafford Loans and other need-based SFA programs. The following chart is an example of how non-federal aid may be substituted for the EFC in determining a student's financial aid package.

John, a student at Grist Mill College, has a COA of $7,000, and an EFC of $1,500. John's financial aid includes a Pell Grant of $1,500, an SEOG of $500, a Futuri Scholarship of $500, and a state-sponsored loan of $2,000. His estimated financial assistance (EFA) of $4,500 added to his EFC ($1,500) would appear to leave him with unmet need of $1,000.

COA	EFA	EFC	unmet need
$7,000	$4,500	$1,500	$1,000

However, because the state-sponsored loan may offset (replace) the EFC, Grist Mill may approve John's subsidized Stafford Loan application for $2,500.

COA	EFA	EFC	StaffordLoan
$7,000	$4,500	0	$2,500

Note that the $2,000 state loan is greater than the EFC—the negative EFC is set to zero. Notice that $2,500 is the maximum subsidized Stafford Loan amount that Grist Mill may approve in this example.

You may want to establish need for the subsidized Stafford Loan before other loans are figured into the aid package—you must do so in the case of unsubsidized Stafford and PLUS loans—to enable the student to receive the maximum subsidized Stafford Loan amount.

No EFC required for PLUS

Calculation of an expected family contribution is not required of a PLUS borrower.

Estimated financial assistance

In determining the amount of Stafford Loan eligibility, you must subtract from the cost of attendance both the EFC and the estimated financial assistance for the loan period in question. As noted earlier, for unsubsidized Stafford Loans and PLUS loans, you subtract only the estimated financial assistance from the cost of attendance, since an EFC is not required. In estimating financial assistance you must consider state aid, and must inform the student about any state grants for which he or she may be eligible. You must also consider scholarships and other awards, and any other federal financial aid for which the student would be

eligible, even if the student has not yet applied for the aid. ROTC scholarships and subsistence allowances also should be included in estimating financial assistance.

See Chapter Two of the *Handbook* for more information on estimated financial assistance. Remember, *all* student employment that is awarded based on financial need (regardless of whether the award originates in the financial aid office) is considered as estimated financial assistance in determining Stafford Loan eligibility. (Student earnings which are not need-based are considered as income in determining eligibility.)

Change in definition of estimated financial assistance

Effective July 1, 1995, estimated financial assistance is defined as the estimated amount of assistance for a period of enrollment that a student (or a parent on behalf of a student) ***will receive*** from Federal, State, institutional, or other sources, such as scholarships, grants, financial need-based employment, or loans. This includes the estimated amount of other federal student aid, such as—

- Federal Pell Grant;
- campus-based aid;
- loans, such as:
  - ◊ Federal Stafford Loans
  - ◊ Federal Unsubsidized Stafford loans (excluding amounts used to replace EFC); and
  - ◊ Federal PLUS loans (excluding amounts used to replace EFC).

Change in EFA provisions

Please note that the definition of "estimated financial assistance" now excludes the amount of expected Federal Perkins Loan or federal work-study aid if the borrower did not apply for those funds.

The following illustration summarizes subsidized Stafford Loan eligibility determination:

COST OF ATTENDANCE	−	ESTIMATED FINANCIAL ASSISTANCE (includes Pell, SEOG, other federal student aid, and non-federal aid, such as scholarships)	−	EXPECTED FAMILY CONTRIBUTION	=	NEED FOR SUBSIDIZED STAFFORD LOAN

Once the need for a Stafford Loan is established, PLUS, unsubsidized Stafford Loans, school loans, and state-sponsored or other private loan programs can be used to offset (replace) all or part of the EFC. Formerly, if an independent student was receiving veterans education benefits, the portion of those benefits that was not included in calculating the EFC was considered as estimated financial assistance in determining Stafford Loan eligibility.

However, beginning with the 1993-94 award year, *no* veterans education benefits will be included in the new need analysis formula (the EFC). Therefore, *all* veterans education benefits are to be included in estimating financial assistance. In the case of a PLUS (for which no EFC is required), the entire amount of those benefits must be counted as estimated financial assistance. See Chapter Five of the *Handbook* for more information on counting veterans benefits.

Subsidized Stafford Loans cannot exceed need

Formerly, a student whose unmet need was $500-$999 could receive a subsidized Stafford Loan with federal interest benefits for a loan up to $1,000, subject to the lender's approval, even if that amount exceeded the student's loan eligibility. Now, students may *not* receive an interest-subsidized loan in excess of their need; this means, for example, that a student whose unmet need is $600 may apply, and be certified for, a subsidized Stafford Loan with federal interest benefits for no more than $600.

An unsubsidized Stafford Loan cannot exceed the student's cost of attendance minus: the total of any aid the student is eligible to receive from the Pell Grant and subsidized Stafford Loan; aid from state aid, scholarships and other awards; and other federal financial aid for which the student is eligible.

Additional factors in determining loan eligibility

Undergrad Stafford applicants must have Pell eligibility determined by FAFSA

Before certifying a Stafford Loan application, you must determine whether an undergraduate applicant has applied for a Pell Grant using the Free Application for Federal Student Aid, if your school participates in the Federal Pell Grant Program. If the student is eligible to receive a Pell Grant, the amount for which the student is eligible must be included in the estimated financial assistance in determining the subsidized Stafford Loan amount, whether or not he or she actually accepts the Pell Grant. The Pell eligibility determination requirement does not apply to applicants for PLUS loans.

For parent PLUS borrowers who are not eligible for any other SFA programs, and are not required to file an application for federal student aid, you must determine other estimated financial assistance, and subtract

that amount from the cost of attendance to determine eligibility for a PLUS. Effective for periods of enrollment that begin on or after July 1, 1994 (or including that date), for purposes of the PLUS program, estimated financial assistance need not include an *unsubsidized* Stafford Loan unless the dependent student is seeking such a loan.

EFA must be determined for PLUS

Loan certification requirements

Before certifying a Stafford Loan, you must ensure that certain regulatory and statutory restrictions have been met:

Default reduction requirements

- You must delay certification for *first-time undergraduate Stafford borrowers* long enough so that delivery of loan proceeds will take place at least 30 days after the beginning of the enrollment period for which the loan is intended. See Section Nine, under "Default Reduction Initiatives" for a more detailed explanation of this requirement.

- You must certify that the loan disbursement schedule provided with each application meets the disbursement requirements for Stafford Loans (see Section Nine under "Default Reduction Initiatives" for more information on the loan disbursement requirements).

  You must prorate Stafford Loans for programs of study that are less than an academic year and for programs in which the "remaining balance" is less than an academic year in length.

In addition to the requirements described above, a school may not certify a Stafford or PLUS loan application until the following requirements also are met:

- The student's dependency status, enrollment status, and satisfactory academic progress have been established.

- A student (or the student and parent in the case of a parent PLUS loan) certifies that he or she is not in default on a Perkins Loan, Stafford Loan, SLS, PLUS, or Consolidation Loan made for attendance at *any* institution, and does not owe a refund on any SFA grant or scholarship program received for attendance at any institution. Financial aid transcripts for students who indicate previous attendance at another eligible school are required as part of this certification. (See Chapter Two of the *Handbook* for more information on financial aid transcripts.)

- A determination of Pell Grant eligibility is made for Stafford Loan applicants.

Loan amount cannot exceed:

for subsidized Stafford Loans, the student's need

for unsubsidized Stafford or PLUS, COA less estimated financial assistance

- The school reviews its academic and financial aid records, verifies the information certified by the borrower (and the student, in the case of a PLUS) concerning previous loans or grants, and determines that the total loan or loans certified for that period of enrollment will not exceed annual or maximum loan limits and (1) for subsidized Stafford Loans, the student's financial need as determined by an approved need analysis system; (2) for unsubsidized Stafford Loans or PLUS loans, the student's cost of attendance less estimated financial assistance.

  Students who in any academic year borrow more than the annual loan limits for which they are eligible under the Stafford Loan or Perkins Loan programs will lose their eligibility for further SFA program assistance for that academic year. Students who borrow in excess of their aggregate maximum loan limits will lose eligibility for all SFA programs.

- Conflicting information with regard to verification requirements is satisfactorily resolved. (See the "Verification Requirements" section under Section Eleven.)

- The school can provide documentation of the student's statement of registration status.

- The school has provided loan counseling for first-time borrowers.

School is responsible for loan certification

You should be aware of the responsibility incurred in certifying the loan application. If you incorrectly certify that an ineligible student is eligible, your school will be responsible for purchasing the loan incorrectly made, and for reimbursing the U.S. Department of Education for all interest and special allowance paid on behalf of the borrower. If you certify that a student is eligible for a larger loan than he or she is entitled to, your school will be responsible for reimbursing the lender for the difference between the loan amount certified and the loan amount to which the student is entitled. Your school must also reimburse the Department for the excess interest and special allowance payments made on the incorrect loan amount. (See the FFEL Program regulations, Section 682.609, for more information on remedial actions.)

Be sure to include your school's OPE/ID number when certifying FFEL application forms.

Some of the most common errors schools make in certifying loans are—

- certifying loans for more than the amount allowed;
- certifying loans to students not making satisfactory academic progress;
- certifying loans to students in ineligible programs or attending an ineligible branch campus;
- certifying loans to ineligible students, such as foreign students on student visas; and
- certifying more than one application for the same student for the same loan period, resulting in loans in excess of need and in excess of loan limits.

If a subsidized Stafford Loan applicant has been selected for verification, you have two options. You may either—

- refuse to certify the Stafford Loan application until verification is completed; or
- certify the application, if there is no information which conflicts with that provided by the applicant, but you may not deliver Stafford Loan proceeds to the borrower until verification is completed.

If the school has received Stafford Loan proceeds for a student, funds must be returned to the lender if the verification process is not completed within 45 days of the school's receipt of loan proceeds. See "Verification Requirements" under Section Eleven for more information on verification.

After completing the school's portion of the application, you certify that the information you have provided is correct, and that the information provided by the student or parent (if the loan is a PLUS) is accurate to the best of your knowledge. Keep one copy of the application on file. The student (or the school on behalf of the student) sends the other copies of the application to the lender along with the promissory note, if included. The date of loan certification is the date the school official signs the loan application and submits it to the lender—unless the school uses another means of documenting the date it submits the application to the lender.

Handling overawards

An overaward is an award in excess of need, and usually occurs when, after determining estimated financial assistance and certifying a Stafford Loan, the financial aid administrator learns of additional financial assistance available to the student, such as a grant or scholarship. Until recently, schools were not required to return Stafford Loan proceeds if, after certifying the loan, the school became aware of additional financial assistance. The law now requires that an overaward of Stafford Loan proceeds be promptly returned to the lender, taking into account other financial aid obtained by the student. The school must provide the lender with a written statement explaining why the funds were returned.

Return to lender of award in excess of need:

1) before loan proceeds arrive at school

If, after the loan has been certified, but before the loan proceeds are received, the school becomes aware of additional financial assistance for the student that could result in an overaward, the school can request that the lender cancel or reduce the Stafford Loan. The school also has the option at this point of reducing or cancelling aid over which it has control, such as institutional or campus-based aid. The $300 overaward tolerance permitted in the Federal Work-Study Program is not considered to be an overaward for the purpose of the Stafford Loan Program.

2) after disbursement has been received at school

When an overaward is identified after the loan proceeds have been received by the school, the school may attempt to reduce or eliminate the overaward by using a student's PLUS or unsubsidized Stafford Loan to replace the family's EFC. *However, the school must repay subsidized and unsubsidized Stafford Loan funds to the lender to eliminate the overaward before adjusting or cancelling a student's undisbursed campus-based aid.*

If the overaward can be eliminated by reducing or cancelling subsequent disbursements of the loan, the school may do so and deliver the first disbursement to the student. The school must inform the lender of the reduced award, and request cancellation or reduction of subsequent disbursements.

If the student is ineligible for the entire loan disbursement, and the overaward cannot be reduced or eliminated, the school must return the loan proceeds to the lender, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned.

If the student is ineligible for only a part of the disbursement, the school has two options. (1) The school may return the loan proceeds to the lender and request a new check for the correct amount. If the school

chooses this option and asks for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. (2) The school may have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer, obtain the student's authorization to release loan funds. The school may then credit the student's account for the amount for which the student is eligible, and promptly refund to the lender the portion of the disbursement for the which the student is ineligible.

Options for return of *part* of disbursement

The school and not the student must return the excess loan proceeds. If the school has credited the loan proceeds to the student's account because the student is eligible for a portion of the disbursement, the lender does not have to refund the portion of the insurance premium and origination fee attributable to the amount returned.

The following example shows possible resolutions of an overaward:

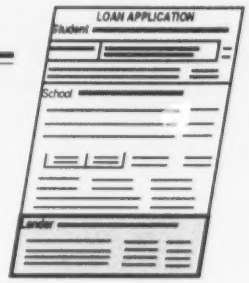
> Stan's subsidized Stafford Loan was certified for $2,000—$1,000 for each semester of the school year. Stan received a scholarship for $500 after the first disbursement of $1,000 was received by his school. Stan's need for the loan period is now $1,500. Stan's school could:
>
> - return the loan proceeds to the lender and ask for a revised loan amount of $1,500 in two $750 installments;
> - deliver $750 of the first disbursement to Stan, return $250 to the lender, and request the lender to reduce the second disbursement by $250, in order to disburse the revised loan amount in two equal installments; or
> - deliver $500 of the first disbursement to Stan, and return the remaining $500 to the lender, to eliminate the entire overaward in the first disbursement. The second disbursement would be for $1,000.

When an award in excess of need is identified after all Stafford Loan proceeds have been delivered to the student, an overaward does not exist and a refund to the lender is not required.

BEST COPY AVAILABLE

NOTE:
These instructions for handling overawards do not apply to Stafford Loans made to cover the cost of attendance at a school outside the United States, or to PLUS or Consolidation Loans.

THE LENDER'S PORTION



The lender reviews the Stafford Loan or PLUS application, and completes the lender portion of the loan application.

A lender may not discriminate against an applicant on the basis of race, national origin, religion, sex, marital status, age, or handicapped status. However, a lender may decline to make loans to students who do not meet the lender's credit standards, or to students at a particular school, or enrolled in a particular program of study. A lender may require an endorser to sign the promissory note, if permitted to do so by the guarantor. A lender may decline to make FFEL loans for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

Lender of last resort provisions

A student who is otherwise eligible for a subsidized Stafford Loan and, after not more than two rejections, has been unable to find a lender willing to make such a loan should contact the guaranty agency in his or her state of residence or the guaranty agency in the state in which the student's school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity, and must respond to the student within 60 days. A loan made by an LLR may not exceed the borrower's need, nor be for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards.

The Higher Education Amendments of 1992 require each guaranty agency to develop rules and procedures for its LLR program. More detail on new LLR provisions is found in Dear Colleague letter 93-S-71 (November 1993).

The lender must receive approval of the guaranty agency for a Stafford Loan to be eligible for payment of federal interest benefits. A lender or guaranty agency may not make or guarantee a Stafford Loan or PLUS until it reviews its records and finds no indication that the applicant (and the student, if the loan is a PLUS) is in default on an SFA loan made for attendance at *any* institution. Once guaranty agency approval is obtained,

the lender will send the Stafford Loan proceeds (or the first disbursement of the proceeds) to the school's financial aid office for delivery to the student, or will send the proceeds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan proceeds are sent to the school by electronic funds transfer or by a check made co-payable to the school and the parent borrower.

Loan disclosure statement required

The lender must also give the borrower a copy of the loan disclosure statement when the first loan disbursement is made. For Stafford Loan borrowers, loan disclosure information must be provided not less than 30 or more than 240 days before the borrower's first payment is due. The disclosure statement will provide the borrower the following information:

- a statement **in bold print** stating that **this is a loan that must be repaid;**
- the name and address of the lender and the address to which communications and payments should be sent;
- a statement that the lender may sell or transfer the loan to another party, and that the address and identity of the party to which correspondence and payments should be sent may change;
- the length of the grace period;
- the estimated balance owed by the borrower on the loans covered by the disclosure statement as of the date on which repayment is due to begin (including capitalized interest, if applicable);
- the stated interest rate on the loan or loans, or the combined interest rate of loans with different rates;
- the amount of the loan, the insurance premium, the loan origination fee, and any other charges, and how they are to be paid;
- the yearly and cumulative maximum amounts that may be borrowed;
- a statement that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a credit bureau;
- the repayment schedule, including when repayment will begin, when accrued interest must be paid, and the number, amount, and frequency of required repayments;
- the minimum annual payment required, and minimum and maximum repayment periods;
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for);

- refinancing and consolidation options;
- for subsidized Stafford Loans, the projected total of interest charges the borrower will pay, if payments are made according to the repayment schedule; for unsubsidized Stafford Loans and PLUS loans, sample projections of monthly payments at various interest rates and with interest capitalization;
- a statement of the borrower's right to prepayment;
- a statement of circumstances under which repayment of principal or interest on the loan may be deferred, and an explanation of forbearance;
- notice of the Department of Defense repayment option (as an enlistment incentive);
- the definition of default (including its consequences);
- the effect of the loan on eligibility for other student assistance; and
- an explanation of borrower costs incurred in collection of the loan.

The information on the disclosure statement will be the most up-to-date information concerning the loan, and will reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If there is any conflict of information between the promissory note and the disclosure statement, the information on the disclosure statement applies. If the student has questions about the statement, or wishes to cancel the loan, he or she should contact the lender immediately and should *not* endorse a loan check or an electronic funds transfer form authorizing transfer of loan proceeds to his or her account.

For Stafford Loan borrowers, the lender or holder of the loan must notify the borrower, not later than 120 days after the borrower has left school, of the date repayment begins.

Borrower notification requirements

For borrowers in the grace period or in repayment, the lender (or holder of the borrower's loan) is now required to keep the borrower informed of address changes. The borrower must be notified not later than 45 days after a lender assigns, transfers, or sells his or her Stafford, SLS, or PLUS loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

- the identity of the purchasing lender, and the name and address of the new lender or servicer;

- notice of the loan assignment; and

- the telephone number of both the purchasing and selling lenders and servicers.

Notification of this change must be made either jointly or separately by purchasing and selling lenders. If a borrower is in a grace period or in repayment, the last school the borrower attended before the beginning of the repayment period may request from the guaranty agency notification of the sale, transfer, or assignment of the loan to another holder, and the address and telephone number of the new holder of the loan.

SECTION EIGHT: PAYMENT TO THE STUDENT

The lender disburses loan proceeds to the school for delivery to the student. Loan proceeds may be credited to the student's account, paid directly to the student, or a combination of both. The steps required before payment is made to the student's account (or to the student directly) are outlined below.

It is the lender's responsibility to provide the borrower a copy of the completed promissory note and repayment information with the first disbursement of loan proceeds. The lender must return the original promissory note to the borrower when the loan is repaid in full.

Please note that in order to separate the functions of authorizing payment and delivering loan proceeds, no single office at the school can have the responsibility for both functions.

REQUIREMENTS FOR DISBURSEMENT

Financial aid transcript required from school(s) previously attended

If a student has received student financial aid while attending another school, you must request a financial aid transcript from any eligible school previously attended before you release Federal Stafford Loan proceeds to the student. As explained in "The School's Portion" in Section Seven, you may certify a borrower's loan application (except for Federal PLUS) prior to receipt of a financial aid transcript. Procedures for obtaining financial aid transcripts are described in Chapter Three of the *Handbook*.

A school may *not* release funds to the student if information provided by any school he or she previously attended indicates that the student is in default on a subsidized or unsubsidized Stafford Loan, PLUS, SLS, Consolidation Loan, NDSL, or Perkins Loan, or that the student owes a

repayment on a Pell, SEOG, or SSIG grant. See Chapter Two for more information on grant overpayments.

Reaffirmation of loan eligibility

The school must determine that the student has maintained eligibility for the Stafford Loan before each disbursement of loan proceeds. Reaffirmation of loan eligibility includes an indication of Pell Grant eligibility (if applicable), establishing that the student has maintained satisfactory academic progress, and verifying enrollment status. Generally, if the student drops below half-time status after receiving the first disbursement of a loan, the student is no longer eligible, and cannot receive the second disbursement of the loan.

The money borrowed by the student under the Stafford Loan Program must be sent by the lender to the school in the form of a check or through electronic funds transfer (EFT) requiring endorsement or other written certification by the student. The check must be made payable to the student or, if required by the guaranty agency, co-payable to the student and the school. A student's loan proceeds may be disbursed via a master check; the borrower's written authorization for the release of the funds is still required.

PLUS disbursements now made through school

The Higher Education Amendments of 1992 require PLUS loans first disbursed on or after October 1, 1992 to be disbursed either to the school through electronic funds transfer (EFT) or by master check, or by check made copayable to the school and the parent borrower. The lender must provide the school with the name and Social Security Number of the student for whom the parent is borrowing. While copayable PLUS checks must be disbursed to the school, the school is not required to endorse the check before sending it to the parent borrower. However, the school must verify the student's eligibility. The school has 45 days to verify student eligibility and forward the check to the parent borrower. If the parent is required to endorse the check and return it to the school, the U.S. Department of Education recognizes that the school has no control over how prompt the parent borrower is in resubmitting the endorsed check.

If PLUS loan proceeds are disbursed through EFT, the school must obtain the parent borrower's authorization before delivering the loan proceeds to the student. The parent's authorization must be kept in the student's file.

Restrictions on loan delivery

The school may provide Stafford Loan proceeds to a registered student, either by paying the student directly or by crediting his or her account, no earlier than 10 days before the first day of a payment period or period of enrollment. An exception to these general guidelines is the delayed disbursement restriction for first-year, first-time undergraduate Stafford borrowers. For these borrowers, the school may not release funds until 30 days after the first day of the student's classes.

Disbursement by EFT or by master check

For a FFEL loan disbursed by EFT or by master check, a school may not request the disbursement of the borrower's loan proceeds until the 13th day before the first day of the student's period of enrollment. For first-year, first-time borrowers, disbursement may not be requested until the 24th day of the student's period of enrollment. For both categories of borrowers, written authorization for release of disbursement must be obtained not more than 30 days prior to the first day of classes of the enrollment period. Written authorization is not required for disbursement if authorization was provided in the loan application.

The student or parent are not required to provide authorization, and this authorization may be rescinded at any time by the student or parent. The authorization is valid for that award year.

For second and subsequent disbursements, a school may pay directly, or credit the account of, an enrolled student no earlier than ten days before the first day of the enrollment period (semester, term, or other period of enrollment for which the disbursement is to be made).

In the case of excess loan proceeds during the 1995-96 academic year, a school must pay the balance directly to the student within 21 days of the date of the balance incurred or the first day of classes of a payment period (whichever is later). In the case of a PLUS loan, the balance must be paid no later than 45 days after the school's receipt of the funds.

These new disbursement and overaward timeframes are described in the December 1 General Provisions and FFELP Final Rule. This regulation was developed to ensure comparability in cash management procedures among all Title IV programs. Sections 668.165 and 682.603 of this regulation explain the disbursement methods to be used in the FFEL Program.

A school may not hold Stafford or PLUS loan proceeds before delivery to the student or parent, or to the student's account, for more than 45 days after receiving them. If all required financial aid transcripts have not been received by then, the school must immediately return the loan proceeds to the lender. If for any reason the loan check is returned uncashed to the lender, the portion of the origination fee deducted from that disbursement should be returned by the lender to the borrower. The lender must credit any refund of tuition or other school charges to the borrower's loan principal. Schools still affected by the California earthquake will be allowed to deliver loan proceeds to the borrower up to 120 days from the school's receipt of the check. See Dear Colleague letter GEN-94-3 (January 1994) for more information about assistance to students and schools in the earthquake disaster area.

Delay of disbursement to 1st year, 1st-time undergraduate Stafford borrowers

As mentioned in the previous section "Restrictions on loan delivery", a school may not deliver the first installment of Stafford Loan proceeds to a first-year undergraduate student borrower who has not previously received a Stafford Loan until 30 days after the first day of the student's program of study (loan period). If the loan was disbursed by EFT or by master check to the school, disbursement to the student must not be requested by the school until the 24th day of the student's period of enrollment.

If the school discovers that a student did not register for the period of enrollment covered by the loan, or did not begin attendance on a delayed basis within the first 30 days of enrollment, the school must return the loan proceeds to the lender within 30 days of this determination. If a student registers but never attends classes for the period of enrollment covered by the loan, the student has failed to qualify for the loan, and the lender must immediately demand full repayment of the loan.

Multiple disbursement required for all Stafford and PLUS loans

Multiple disbursement is now required for most Stafford and PLUS loan proceeds, *regardless of the amount of the loan or the length of the loan period.* No installment amount may exceed more than one half of the loan proceeds. A second or subsequent disbursement must be made no earlier than ten days before the first day of the enrollment period (semester, term, or other period of enrollment for which the disbursement can be made). Only if the first disbursement would take place on or after the time scheduled for the second disbursement can the proceeds be delivered by the lender in a single disbursement.

Stafford and PLUS disbursement schedule now required

Schools are required to provide the lender with a schedule for disbursement of loan proceeds for each student that meets Stafford and PLUS loan disbursement requirements. The disbursement schedule must comply with the multiple disbursement requirements just described, and with the restrictions on delivery to first-year, first-time undergraduate Stafford Loan borrowers.

Schools with standard academic terms must develop disbursement schedules based on their academic calendars, unless charges are assessed at established points in the program or academic year. Schools *without* standard academic terms must base their disbursement schedules on the requirements for multiple disbursement described in this section.

The disbursement schedule item on the school's portion of the Stafford or PLUS loan application may be used to fulfill the requirement for a disbursement schedule. Or, the school may provide disbursement schedules directly to the lender (or to the guaranty agency, if the agency is serving as an agent for its lenders for this purpose). The Higher Education Amendments of 1992 provide that with the permission of the borrower, loan proceeds may be disbursed on a weekly or monthly basis,

as long as the payments are substantially equal over the period of enrollment.

NOTE:
Any additional loan proceeds in excess of those necessary to cover allowable school charges owed by the student may be held by the school (for use during the remainder of the academic year) *only* with the written authorization of the student. The excess proceeds must be deposited in a separate trust account; the school may not mix them with other funds or use them for any other purpose. If the student, at a later date, requests the excess loan proceeds, you must release them.

School administration of excess loan proceeds

The institution has certain responsibilities concerning its administration of such accounts. For one, it must maintain cash in its bank account for an amount equal to the amount of the funds the school holds for the student. Also, the school must provide an annual notice to each student for which it holds funds in subsidiary ledger accounts. The notice must include an explanation of any interest that the institution earns on the student's funds, and whether the institution will provide that interest to the student. The school may retain any interest earned on the student's funds while the school is holding those funds.

Lenders may not disburse loan proceeds without first receiving a disbursement schedule from the school. The student is not required to sign the disbursement schedule. Remember, these are disbursement dates, not anticipated delivery dates; you should allow time for mail delivery when establishing disbursement schedules for lenders.

Developing a disbursement schedule

In developing a disbursement schedule, you must consider both the mandatory 30-day delayed delivery requirement and the 45-day limit on holding loan proceeds, and construct a schedule that will meet both of those requirements. Before delivering subsequent installments of loan proceeds, you must determine that the borrower continues to be enrolled and is maintaining satisfactory progress.

The Higher Education Amendments of 1992 prohibit a lender from selling or transferring a promissory note for any FFEL Program loan until the final disbursement of the loan has been made. However, if the first disbursement of the loan has been made, and the sale or transfer will not result in a change in the name and address of the party to whom payments will be made, the sale or transfer may be made.

Provision for payment to students outside U.S.

The multiple disbursement requirements discussed on the preceding pages do not apply to students attending an eligible school outside the United States. However, students enrolled in a study abroad program through a home institution are still subject to the multiple disbursement requirement.

If a student is attending an eligible school located outside the United States, or is enrolled in a study abroad program, the check may be sent directly to the student, or to the home school if the student provides a power-of-attorney to endorse the check or to complete an electronic funds transfer authorization.

Multiple disbursement requirements do not apply to the Consolidation Loan Program.

As mentioned earlier, in circumstances where the school receives Stafford Loan proceeds from a lender and then receives verification information (or any other information) indicating that the student has been awarded aid in excess of need, you must ensure that the student receives only the funds to which he or she is entitled.

If a student completes the academic program and has Stafford Loan funds remaining in his or her account, the school should either promptly send the excess money to the student, or return the remaining funds to the lender and notify the student that the funds have been returned. Any credit balance remaining in a student's account after the student has dropped below half-time status, withdrawn, or left school before completing the academic program must be returned to the lender.

LATE DISBURSEMENT

If the lender disburses the loan proceeds after the end of the period of enrollment for which the loan was made, the proceeds must be returned to the lender within 30 days, unless the proceeds are the first disbursement of the loan, and come with a notice from the lender stating that the late first disbursement has been approved by the guaranty agency. Similarly, if the lender disburses the loan proceeds before the end of the enrollment period, but after the student has left school or dropped below half-time status, the school must return the loan proceeds to the lender within 30 days.

Under the new FFEL Program regulations, unless the the guaranty agency prohibits it, however, a lender may disburse loan proceeds after the

student is no longer enrolled on at least a half-time basis under the following limited circumstances:

- the loan proceeds will be used for costs of attendance incurred while the student was enrolled at least half time;
- in the case of a first disbursement made to a first-year undergraduate Stafford borrower, the student completed the first 30 days of the loan period for which the loan was made;
- in the case of a second or subsequent disbursement, the student successfully completed the period of enrollment for which the loan was made;
- the disbursement is received by the school within the earlier of 60 days after the date the student drops below half-time status, or 60 days after the period of enrollment for which the loan was made.

A loan may be disbursed within 90 days after the student ceases to be enrolled on at least a half-time basis or after the expiration date of the period of enrollment for which the loan was made (whichever is earlier). A borrower must document his or her exceptional circumstances, and the guaranty agency must approve the disbursement before it is made.

When returning a late disbursement to the lender, the school must include with it a note explaining the circumstances of its return and, if applicable, information concerning the student's enrollment status or withdrawal. The note should also include the cost of attendance for the period in which the student was enrolled. The student should be informed that the lender, if allowed by the guaranty agency, may again disburse funds to cover costs incurred while the student was eligible.

As explained above, if the borrower has left school after successfully completing the program, or after completing the period of enrollment for which the loan was intended, a late disbursement of loan proceeds *can* be made. Otherwise, a second or subsequent late disbursement of a Stafford Loan to a borrower who has withdrawn from school is also prohibited. Instead, the disbursement must be used to reduce the student's outstanding loan balance. The lender must return to the student's account the insurance premium and origination fee attributable to the withheld disbursement. This prohibition applies to all second or subsequent disbursements made for periods of enrollment beginning on or after January 1, 1990.

SECTION NINE: DEFAULT REDUCTION MEASURES

The major default reduction measures, with the exception of those concerning entrance counseling, are covered in this section; there is cross-referencing to other sections of this chapter where more detail on specific changes may be provided. The requirements for initial counseling of students will be covered in Section Ten under "Entrance Counseling." Some specific requirements, such as modification to deferment provisions and changes to student and institutional eligibility requirements, are covered only in the appropriate sections of the chapter. Margin notes are used to attract your attention to new information where it appears in other sections.

The U.S. Department of Education issued comprehensive default reduction regulations on June 5, 1989, as part of a major effort to reduce the default rate of Federal Stafford Loan and Federal SLS borrowers. The regulations are found in the General Provisions regulations (Part 668) and in the FFEL Program regulations (Part 682). Schools with high FFEL Program cohort default rates are a major focus of the default reduction regulations, and of subsequent legislation focusing on the problem of defaulted loans. These actions by law and regulation require schools to provide additional loan counseling to students, and to take specific steps to reduce student loan defaults. More stringent default reduction efforts are required of schools with default rates above a given level.

New default reduction efforts

The Higher Education Amendments of 1992 made changes in the definition and applicability of the cohort default rate. The Amendments also initiated mandatory loan rehabilitation and a loan forgiveness program, and added other measures to help borrowers avoid default. The Amendments now require annual publication of a cohort default rate for lenders and guaranty agencies, as well as schools. Measures enacted to facilitate the exchange of information between lenders and guaranty agencies and schools will help in locating borrowers once they leave school; keeping borrowers in touch with the lender is an effective means of avoiding delinquency and default.

If you have questions about the default reduction initiatives that are not answered in this chapter, you may contact—

Attention: Default Management Section
U.S. Department of Education
Room 3919, ROB-3
600 Independence Ave. SW
Washington, DC 20202-5353

Phone: (202) 708-9396

Most default reduction measures are based on a school's cohort default rate for a given fiscal year. The fiscal year (FY) for the federal government is October 1 to September 30—thus FY 1994 is the period October 1, 1993 through September 30, 1994.

DRAFT COHORT DEFAULT RATES

In the past, schools were notified of their cohort default rates on an annual basis. However, effective since October 1, 1994, the Department now calculates draft cohort default rates **before** it calculates and publishes official school cohort default rates. Therefore, schools now have a reasonable opportunity to review and correct errors in the repayment and default information which guaranty agencies must provide to the Department.

The Department issued regulations published April 29, 1994 and November 29, 1994 governing the draft cohort default rate review process. Further information on the draft default rate review process is provided to schools in a booklet entitled *FY 1993 Draft Default Rate Information*, which will be mailed to schools with their draft cohort default rate notification letters.

OFFICIAL COHORT DEFAULT RATES

Cohort default rate—definition

Effective since July 1, 1994, the cohort default rate (formerly known as the fiscal year default rate) is the percentage of current and former students who entered repayment on a Federal Stafford *(subsidized or unsubsidized)* or Federal SLS loan in a given fiscal year and defaulted before the end of the following fiscal year. The cohort default rate is a combined rate for both the Stafford Loan and SLS programs. However, a borrower who enters repayment on more than one of these loans during the fiscal year in question is counted only once in computing the school's default rate for that year.

Here is an example of how the cohort default rate for a school with 30 or more borrowers in repayment is determined:

> In FY 1993, 80 current and former SLS and/or Stafford Loan borrowers at Magenta Sands Community College entered repayment on their loans. By the end of FY 1994, 20 of those students, or one fourth, had defaulted.
>
> Magenta Sands Community College's *FY 1993* cohort default rate is 25 percent.

Calculating a cohort default rate

The formula for calculating a cohort default rate for schools with 30 or more borrowers entering repayment is:

$$\frac{\text{number of students who entered repayment in FY } \boldsymbol{A} \text{ who default by the end of FY } \boldsymbol{B} \text{ (the following FY)}}{\text{number of students who entered repayment in FY } \boldsymbol{A}} \times 100\%$$

Calculation for schools with fewer than 30 students entering repayment

The Higher Education Amendments of 1992 changed the formula for calculating a cohort default rate for schools with fewer than 30 borrowers. Beginning with the calculation of the FY 1991 cohort default rate, for a school with fewer than 30 students entering repayment during the fiscal year, the percentage of current and former students who entered repayment on a Stafford or SLS loan in *any* of the three most recent fiscal years and defaulted before the end of the following year will be used as that school's cohort default rate. This means that the number of students who enter repayment in any (or all) of the three most recent fiscal years (in this case, FY 1991, FY 1992, and FY 1993) will be added together, and the number of students who default before the end of the following fiscal year in any of those years will be added together. Then, as with the cohort default rate for schools with 30 or more borrowers, the number of students in default divided by the number who entered repayment, times 100 percent results in a percentage of students in default—which is the official cohort default rate for the school.

Previously, the default rate for each of the three most recent fiscal years was averaged to arrive at the official cohort default rate. *Note that average cohort rates calculated for fiscal years prior to FY 1991 do not change.* More information on calculating cohort default rates for schools with fewer than 30 borrowers will be included in your school's official

cohort default rate notification letter, and in the *FY 1993 Official Cohort Default Rate Guide* which will accompany that letter.

Schools with fewer than 30 borrowers entering repayment in FY 1993 that had *no* data reported by guaranty agencies for one or more of the three most recent fiscal years (FY 1991, FY 1992, or FY 1993) will not have an average rate calculated in FY 1993.

The following is an illustration of how the calculation for a school with fewer than 30 borrowers is made:

Carolla Institute had 15 borrowers who entered repayment in FY 1991; of those 15, 10 defaulted by the end of FY 1992. Carolla had 25 borrowers entering repayment in FY 1992; of those 25, 5 defaulted by the end of FY 1993. Carolla had 20 borrowers entering repayment in FY 1993; of those 20, 5 defaulted by the end of FY 1994. Carolla's FY 1993 cohort default rate is calculated as follows:

FY 1991	FY 1992	FY 1993		
10	5	5	= 20	x 100%
15	25	20	= 60	

Carolla's FY 1993 default rate is 33.3 percent.

A cohort default rate is like a "snapshot" of the time period affected. Changes that occur after the data for a particular cohort default rate are collected will not affect that default rate calculation. To illustrate, let's look at Magenta Sands Community College's FY 1993 cohort default rate. Those students who enter repayment in FY 1993 and default before the end of FY 1994 are counted in Magenta's FY 1993 cohort default rate. Here are examples of three students who attended Magenta and subsequently defaulted:

- Alfonia defaulted in July 1994, but made satisfactory arrangements to repay her loan and reentered repayment in December 1994. For purposes of calculating Magenta's FY 1993 cohort default rate, Alfonia continues to be counted as in default.

- Toby, another former student at Magenta, entered repayment in October 1993 and subsequently defaulted in May 1994. However, Toby won $10,000 in a lottery in November 1994 and promptly repaid his loan in full. Nevertheless, Toby continues to be counted as in default in Magenta's FY 1993 cohort default rate calculation.

- Jay, still another former student at Magenta, made satisfactory payments on a loan that entered repayment in FY 1993. However, in spring of 1994 Jay lost his job and, unable to find another job, defaulted on his loan in November 1994. Because Jay's default occurred after the FY 1993 cohort default rate calculation period ended, (which was September 30, 1994 for defaults), his loan was reported as in repayment. Jay's loan will not be counted as a default for *any* fiscal year's cohort default rate calculation.

Change in status of a school

Schools changing status must implement a default management plan

Default reduction measures apply to *all* divisions and locations of a school. When a school changes its status—by branching, consolidating, or changing ownership, for example—the school's cohort default rate will be reviewed based on its new status. Under the Higher Education Amendments of 1992, a school that changes its status must submit a default management plan to the Department and implement the plan for two years after its change in status. The following examples illustrate how the calculation of a school's default rate is affected by a change in the school's status.

If a school has had either its FY 1991, FY 1992, or FY 1993 default rate revised due to a recalculation of a default rate or substituted due to a change in the school's status, the revised or substituted data are used to calculate an average default rate for the school. Please read the discussion that follows regarding how cohort default rates can be affected by a school's change in status.

Treatment of Cohort Default Rates for Schools that Change Status

Summaries are provided on the following pages for each type of status change. These changes affect the calculation of both the draft and the official cohort default rates for each school. For more detailed information, you may wish to consult the *FY 1993 Official Cohort Default Rate Guide* which is sent to each school along with its official cohort default rate notification letter.

- **If a school changes from one location (branch) of a school to a free-standing school:**

  Effective January 29, 1993, new eligibility regulations (34 CFR 600.5 and 600.6) require a school that was formerly a branch of another proprietary, postsecondary vocational, or vocational school, and is seeking institutional eligibility in its own right, to operate independently from its former "parent" school for at least two years before it is eligible to participate in SFA programs. A cohort default rate will not be calculated for these schools until they become eligible institutions.

- **If a free-standing school becomes a separate location (branch) of another school:**

  The Department will calculate an official cohort default rate for the school by adding cohort default rate data (borrower repayment and default data) for the former free-standing school and the new "parent" school to arrive at a cohort default rate for both the former free-standing, and the "parent", school. The new rate is the school's official cohort default rate and will apply to the parent school *and all of its locations*.

Remember that a free-standing school that has been issued an individual OPE/ID number *must* use that identification number when certifying FFEL application forms. The OPE/ID number provides the guaranty agencies with the means to report individual loan activity on a school-by-school basis. See Dear Colleague letter 92-S-66 (February 1992) for more information about this requirement.

Beginning on the next page is an example of how an official default rate is calculated when a free-standing school becomes a separate location of another school.

Trimbel Technical School, a free-standing school, has become a branch of Fibonnaci Technical Institute. Here is how Fibonnaci's new cohort default rate will be calculated:

Trimbel		*Fibonnaci*
25	[illegible] in default	75
100	students entering repayment	200

To calculate a new official default rate for Fibonnaci, the data on students defaulting is combined: 25 + 75 = 100

and the data on students entering repayment is combined: 100 + 200 = 300

A default rate is calculated based on the combined data, using the formula for calculating a cohort default rate

$$\frac{100}{300} \times 100\% = 33.3\%$$

Thus, Fibonacci's new official default rate is 33.3%.

- **If a school changes from a location (branch) of one school to a location of another school:**

  Borrower repayment and default data will be combined as described on the previous page for free-standing to branch campus changes, but the data used will be from both schools in their entirety, not just the branches involved in the status change. The school's former "parent" repayment and default data and its new "parent" repayment and default data will be added together and used to calculate a revised official default rate for the new "parent" school *and all of its branches.*

- **If two or more free-standing schools merge:**

  The cohort default rate is calculated by combining the number of students who enter repayment and the number of students who default for all of the schools, and calculating an official cohort default rate for the "new" merged school on that basis.

- **If a school changes ownership:**

  If the new owner applies for eligibility to participate in the SFA programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in the SFA programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA program, or may be granted provisional certification, on the basis of current cohort default rates.

If you have any questions regarding your school's official cohort default rate, you should contact the Default Management Section at the address and phone number listed at the beginning of this section. If you have questions regarding a school's change in ownership, call the Institutional Participation Division of the Department at (202) 708-4906, and ask to speak to someone about a change in ownership.

The default reduction measures required of schools with specific rates is addressed next.

CONSEQUENCES ASSOCIATED WITH OFFICIAL COHORT DEFAULT RATES ABOVE CERTAIN THRESHOLDS

Cohort default rates greater than 20 percent

More than 20% — default management plans required

If a school's cohort default rate exceeds 20.0 percent, the school must implement a default management plan to reduce its rate of borrower default. The school must provide a proposed default management plan to the Department and the guaranty agency that guarantees the largest volume of loans to its borrowers. The school may adopt its own plan, or it may notify the Department that it has adopted Appendix D of Part 668 of the General Provisions regulations.

If a school wishes to deviate from any of the requirements of Appendix D, it must justify those deviations in its plan submission. The effective date for a school's plan is the date of the plan approval letter. If a school's default rate for a particular fiscal year drops to 20.0 percent or below, the school will no longer be required to follow the provisions of its plan; however, the Department recommends continued implementation of the plan.

Schools in this category may appeal their cohort default rates based on the first two types of appeals described on pages 10-111 to 10-113 of this section (erroneous data, or improper loan servicing and collection). Strict appeal timeframes and standards must be met, as explained in that section. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1993 Official Cohort Default Rate Guide.*

Cohort Default Rates of 25.0 Percent or Greater for FY 1991, FY 1992, and FY 1993

Loss of FFEL eligibility if default rates are 25% or greater for 3 most recent years

If a school's cohort default rates are 25.0 percent or greater for the three most recent fiscal years for which data are available, the school loses its eligibility to participate in the FFEL Program immediately upon notification by the Department of Education. The thresholds are listed in Section 668.17, "Default Reduction Measures", of the April 29, 1994 Student Assistance General Provisions and FFELP Final Rule.

Schools subject to loss of FFEL Program eligibility have an opportunity to appeal this action; the appeal process is described in the following section. Loss of eligibility to participate in the FFEL Program will be in effect for the remainder of FY 1995, and for the following two fiscal years. Thus, the earliest that a school could reapply for eligibility to participate in the FFEL programs is October 1, 1997, the first day of FY 1998. A school that loses eligibility must immediately inform all current and potential students of its ineligibility to participate in FFEL programs, and must make clear to students that they cannot receive FFEL loans for attendance at that school. Students attending the school remain eligible for in-school deferments.

NOTE:
Historically black colleges and universities (HBCUs), tribally controlled community colleges, and Navajo community colleges are not subject to loss of FFEL Program eligibility due to default rates greater than 25% for the three most recent fiscal years for which data are available. This exemption has been extended to July 1, 1998.

For a more detailed explanation of calculating cohort default rates, see the discussion at the beginning of this section and Section 668.17 of the April 29, 1994 Student Assistance General Provisions and FFELP Final Rule.

If a school loses FFEL Program eligibility, any FFEL loan proceeds disbursed to the school but not delivered to the student (or credited to the

student's account) must be returned to the lender immediately. If a school loses its eligibility during a payment period, but continues to provide instruction to students enrolled in its formerly eligible program, a student who, at the time of the school's loss of eligibility, has received a first disbursement of a Stafford Loan may receive the second (or subsequent) disbursement of that loan, as long as he or she is otherwise eligible. This assumes that the school remains open during the period of enrollment for which the loan was made.

Schools in this category may appeal their cohort default rates based on any of the three types of appeals described on pages 10-111 to 10-114 (erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances) in order to possibly regain eligibility for participation in the FFEL Program. Strict appeal timeframes and standards must be met, as explained in that section. More comprehensive information is provided in the cohort default rate notification letter and the *FY 1993 Official Cohort Default Rate Guide.* Therefore, ***if your school is in this default rate category, read both of these documents carefully—they will provide additional information about what steps a school in this category should take.*** Your default rate notification letter must be retained for program review and audit purposes.

Cohort Default Rates that Exceed 40.0 Percent

Schools with default rates in this category are expected to adopt all the measures in Appendix D of Part 668 of the General Provisions regulations within 60 days of receipt of notification that the school's FY 1993 cohort default rate is greater than 40 percent.

Limitation, suspension, or termination (LS & T) is possible if schools have cohort default rates over 40 percent for FY 1993. The possibility of an LST action is described in Section 668.17, "Default Reduction Measures", of the April 29, 1994 Student Assistance General Provisions and FFEL Final Rule. Questions regarding the implementation of Appendix D default reduction measures should be directed to the Default Managment Section, or the appropriate Regional Office.

Please note that an LST action affects a school's participation in *all* SFA programs. A school has only one defense against an LS & T action based on a cohort default rate above this threshold: it must demonstrate that it has acted diligently to implement the default reduction measures detailed in Appendix D.

APPEAL PROCEDURES FOR SCHOOLS WITH HIGH OFFICIAL COHORT DEFAULT RATES

The right to appeal, and the type of appeal, that may be submitted by a school varies depending upon its default rate category. It is critical for schools to follow the appeal time frames and standards set forth in the November 29, 1994 regulation and the *FY 1993 Official Cohort Default Rate Guide*. If the procedures are not followed correctly by each school seeking an appeal, the institution is prohibited from challenging its default rate.

As indicated previously, schools with cohort default rates of 20.0 percent or greater may appeal based on the first two circumstances described below:

1) Allegations that erroneous data were used to calculate the cohort default rate.

2) Improper loan servicing and collection.

Schools which are subject to loss of FFEL eligibility (those schools with cohort default rates of 25.0 percent or greater for the three most recent fiscal years) may appeal based on any of the three circumstances described on the next few pages: erroneous data, improper loan servicing and collection, or exceptional mitigating circumstances.

For further details concerning appeal procedures, please refer to the information sent as part of your school's default rate notification letter.

- **Erroneous data:**

  A school may appeal by challenging the accuracy of the default rates if it believes that a recalculation of the data would produce a rate less than 25 percent for any of the three relevant fiscal years. *The school must notify the Department in writing of its intent to appeal its loss of eligibility based on inaccurate default rates within seven calendar days from the date the school receives its default rate notification letter in order to remain eligible to participate in the FFEL programs during the appeal process.*

  The school's written request identifying the inaccurate data must be submitted to the appropriate guaranty agency (or agencies)

within ten working days of the date the school receives its default rate notification letter. The guaranty agency must respond within fifteen days. The school must submit its final appeal to the Department within five working days of receipt of all of the guaranty agencies' responses.

- **Improper Loan Servicing and Collection:**

  A school may appeal its loss of eligibility based on allegations of improper loan servicing. The Department has developed a regulation governing procedures for this type of appeal. This regulation was published as a Student Assistance General Provisions Final Rule on November 29, 1994.

  An allegation by an institution that an agency or servicer did not conduct its loan servicing and collection responsibilities properly will be considered if: a) the borrower did not make a payment on the loan; and b) the institution can show that the agency missed one of the four activities listed below. Changes to default rate data will be made only when each error is confirmed by the guaranty agency and approved by the Department.

  The four activities which guaranty agencies and servicers must complete as part of normal loan servicing and collection functions are as follows:

  - send at least one letter other than the final demand letter, urging the borrower or endorser to make payments on the loan;
  - make at least one attempt to reach the borrower by phone;
  - request preclaims assistance from the guaranty agency, if required; and
  - send the final demand letter.

  To begin the appeal process, the institution must notify the guaranty agency and the Department of its intent to appeal within 10 working days of the date the institution received the Secretary's notification. The school will then receive a sample of loan servicing and collection records from the guaranty agency. If the institution is subject to loss of FFEL eligibility, the guaranty agency must

respond to the institution's request for the sample records within 15 working days. Otherwise, the guaranty agency has 30 working days in which to respond. After receiving this information from the guaranty agency (or agencies), the institution has 30 calendar days to file its appeal with the Secretary.

An institution may file an appeal of improper loan servicing and collection only once. The Secretary's determination of the outcome of the school's appeal is binding.

- **Exceptional Mitigating Circumstances:**

A school may appeal under one (or both) of the "exceptional mitigating circumstances" that the Department recognizes would make its loss of eligibility inequitable. *The school must notify the Department in writing of its intent to appeal its loss of eligibility due to exceptional mitigating circumstances within seven calendar days from the date the school receives its default rate notification letter in order to remain eligible to participate in the FFEL programs during the appeal process.* If a school fails to meet the seven-day deadline, it may still appeal its loss of eligibility if a complete appeal is submitted within 30 calendar days of receipt of notification as described above. However, the school will *not* remain eligible during the appeal process. The "exceptional mitigating circumstances" are:

◊ The school is successfully serving students from disadvantaged economic backgrounds. This means that the school must meet the following requirements:

- at least two-thirds of its students enrolled at least half time are from disadvantaged economic backgrounds;

- at least two-thirds of its initially enrolled full-time students that were scheduled to complete within the 24-month period, complete their program; and

- at least two-thirds of those students who receive a degree, certificate, or other recognized credential from the school are placed in relevant jobs or continue at a higher level of education.

◊ The school has only a small proportion of its students receiving Stafford or SLS loans. This is defined as a school in which no more than 15 percent of its students who are enrolled at least half time receive Stafford or SLS loans and—

- at least two-thirds of its initially enrolled full-time students that were scheduled to complete within the 24-month period, complete their program; and

- at least two-thirds of those students who receive a degree, certificate, or other recognized credential from the school are placed in relevant jobs or continue at a higher level of education.

NOTE:
Appeals of loss of eligibility due to a school's default rate should be sent to the Default Management Section at the address listed on page 10-102. If you have questions or need clarification concerning your school's cohort default rate and its consequences, contact the Default Management Section at the address and telephone number listed on that page.

GENERAL REQUIREMENTS TO REDUCE DEFAULTS

Consumer Disclosure Requirements

The default reduction regulations require schools that make marketing claims regarding job placement to provide completion and job placement rates to prospective students. In addition, the Higher Education Amendments of 1992 require schools that advertise job placement rates to inform prospective students of state licensing requirements of the state in which the school is located for any programs the school offers which require state licensing.

All schools must provide current and prospective students with information on costs of attendance, programs offered, and the school's refund policy. If a school makes marketing claims regarding job placement in order to recruit students, it must provide the most recent available data concerning employment statistics, graduation statistics, and other information necessary to substantiate the truthfulness of its claims.

Correspondence schools are required to provide current and prospective students, in addition to information about course work and due dates for lessons, the date by which resident training must begin, the location of residential training, and the period of time within which the training must be completed.

Since July 1, 1993, schools must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at the school. The student is counted as having completed or graduated if, within 150 percent of the time normally required for completion of the program, he or she has completed the program, graduated, or enrolled in a program for which the current program provided substantial preparation. Schools may exclude from their calculations the completion or graduation rate of students who leave school to serve in the armed forces, to serve on official church missions, or who enter a recognized foreign aid service of the federal government. Chapter Three of the *Handbook* provides more information on this annual requirement.

Default Reduction Initiatives

The following requirements are applicable to all schools:

- Under the Higher Education Amendments of 1992, *all* schools (except foreign schools) wishing to participate in FFEL programs must develop a default management plan for approval by the Department as part of their initial application for participation, and must implement the plan for two years after they become eligible. Recertification will be required of all schools every five years; a default management plan is a requirement of the Program Participation Agreement for schools wishing to participate in FFEL programs.

Default managment plan required as part of certification or recertification

- A school that admits students who do not have a high school diploma or its equivalent must make available to those students a General Education Development (GED) program. The school does not have to develop its own GED program or pay students' tuition for such a program, but it must be sure that a GED program is available nearby, and must inform students of the program's availability. This requirement applies to all SFA programs except SSIG and Byrd Scholarship programs. See Chapter Three of the *Handbook* for more detail on GED requirements.

GED program must be available to students without a high school diploma

Multiple disbursement requirements

- For Stafford and PLUS loans, loan proceeds must be disbursed in two or more installments, regardless of the amount of the loan or the length of the enrollment period for which the loan is made. No disbursement may exceed one half of the loan amount.

  See Section Eight under "Requirements for Disbursement" for more detail on this requirement.

- Late disbursements of Stafford Loans are subject to certain restrictions. See Section Eight under "Late Disbursement" for more information on this requirement.

Delayed disbursement restriction for Stafford Loan borrowers

- Stafford Loan borrowers who are entering the first year of an undergraduate program, and have not previously received a Stafford Loan, may not receive the first installment of loan proceeds until 30 days after the first day of the program of study.

  If the first-time undergraduate borrower's FFEL loan is disbursed by EFT or by master check, a school may not request the disbursement of the borrower's loan proceeds until the 24th day of the student's period of enrollment.

  The first-year undergraduate provision applies to the student's current program of study; a student could have completed the first year of another program of study, but would still be considered a first-year undergraduate in his or her current program.

Disbursement schedule for lender is required

- Schools are now required to provide to the appropriate lender, on behalf of each student borrower, a disbursement schedule that meets Stafford and PLUS loan disbursement requirements. See "Requirements for Disbursement" in Section Eight for more detail.

Fair and equitable refund policy required of all schools

- All schools participating in SFA programs are now required to have a fair and equitable refund policy.

  Unless the school's policy is more stringent, schools must provide *pro rata* refunds for students who are attending the

school for the first time and do not complete 60 percent of the period of enrollment for which the student has been charged. *Pro rata* refund calculations are explained in Chapter Three of the *Handbook*.

SECTION TEN: COUNSELING STUDENTS

The financial aid administrator's role as loan counselor has increased in importance with the shift in emphasis from grants to loans, and the increased concern about student loan defaults. This section provides information on new counseling requirements, and suggestions as to how loan information might be presented. Schools must keep documentation in each student's file showing that both entrance and exit counseling have been provided to the borrower.

Both entrance and exit counseling are requirements under the default reduction regulations. However, effective loan counseling is an ongoing process, and reinforcement of points made during the entrance interview is advisable whenever aid administrators meet with students concerning their loans. For example, the aid administrator has an opportunity during each delivery of loan proceeds to counsel students concerning satisfactory academic progress, constraints on aid, the obligation to notify his or her lender about a change in address, etc. If loan counseling is an ongoing process, the exit interview becomes a review of information conveyed during the course of the student's program of study, and the presentation of additional material to prepare the student for loan repayment.

Dynamic presentation of material at both entrance and exit interviews using charts, handouts, audio-visual materials, and question-and-answer sessions can convey your message with greatest effect. You may wish to contact guaranty agencies, lenders, and other organizations associated with postsecondary education to see what videos, pamphlets, and other materials may be available to you.

The illustration on the next page is a summary of information to be covered during the entrance and exit interviews or counseling sessions. The "core items" should be covered as part of both entrance and exit counseling. Entrance and exit counseling are covered in Section 682.604 of the FFEL regulations, and in Appendix D of the General Provisions regulations, Part 668.

ENTRANCE COUNSELING

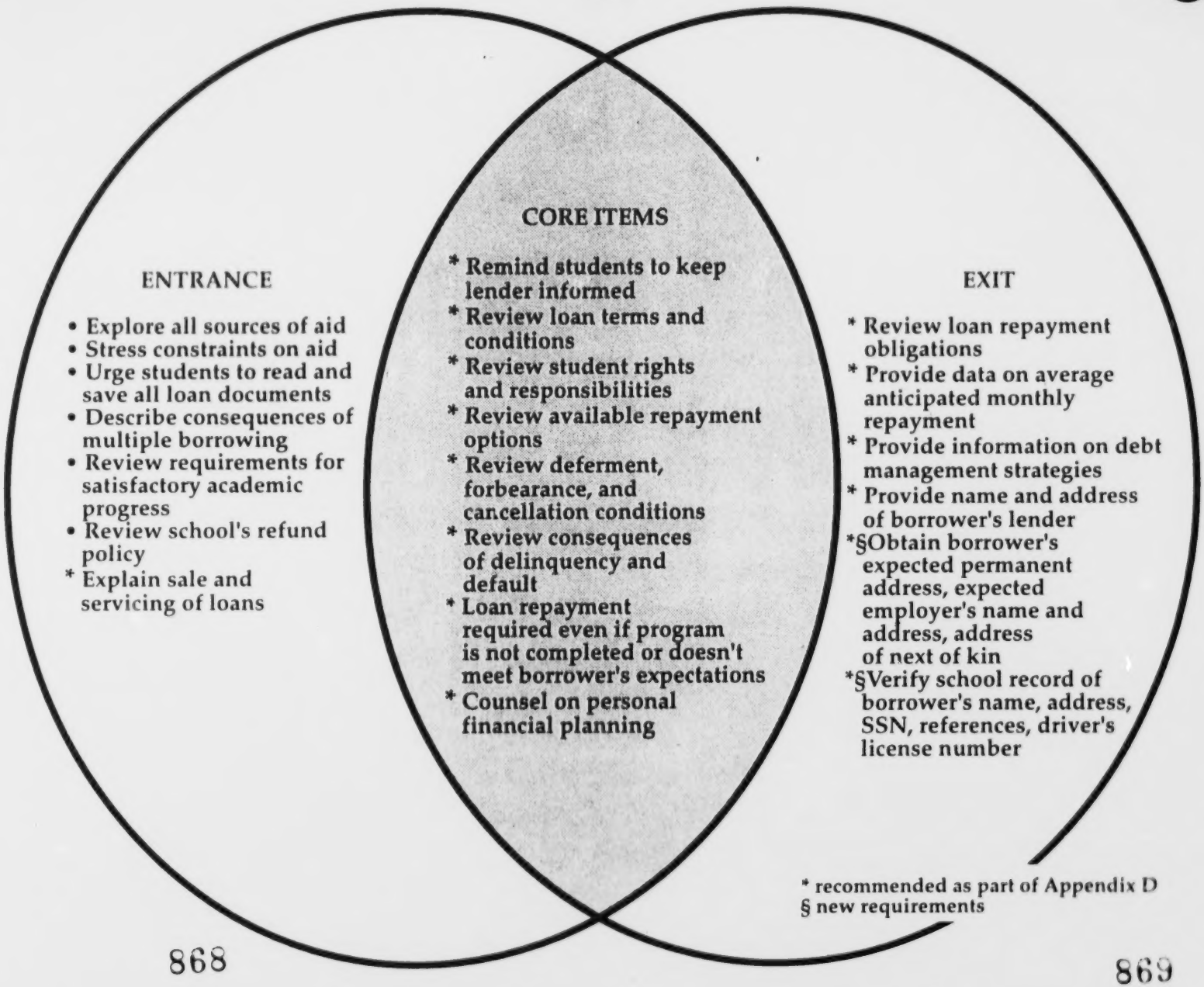
Entrance counseling must be conducted before release of the first disbursement of the first Federal Stafford Loan made to the borrower at your school. The counseling must be conducted in person, or by videotape presentation, and a person knowledgeable about SFA programs must be available for questions after the counseling session. A school's junior year abroad program or other off-campus program must provide the entrance counseling information by mail before release of the loan proceeds. A correspondence school must also provide the information by mail before releasing loan proceeds. Schools using Appendix D default reduction measures must administer a written test covering the terms and conditions of Stafford Loans as part of the entrance counseling process. Additional counseling must be given to students who fail the written test.

Recognizing that each school and each student's situation is different, here are some suggestions for presentation of the information covered in the illustration. The emphasis may be shifted, but all the points made below should be covered during entrance counseling.

In addition, please note that the Secretary shall consider the ways in which performance standards can be used for alternative counseling, as well as how alternative counseling might be implemented as part of the Institutional Quality Assurance Program.

- **An overview of all possible sources of aid is important**, with an emphasis on the constraints on student aid, and a discussion of "reasonable expenses" in the context of grants and loans. Your Program Participation Agreement requires you to provide, in addition to state grant assistance information, a source of information for programs in the student's home state. Information on other loan sources, such as health professions loans, also should be provided.

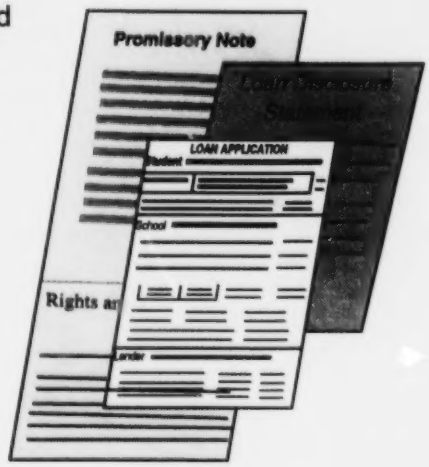
- **Terms and conditions of various loan programs should be reviewed.** In addition to providing basic information on loan limits, loan fees, and interest rates, counselors should explain terms such as deferment, forbearance, and cancellation. This is


ENTRANCE
• Explore all sources of aid
• Stress constraints on aid
• Urge students to read and save all loan documents
• Describe consequences of multiple borrowing
• Review requirements for satisfactory academic progress
• Review school's refund policy
* Explain sale and servicing of loans
CORE ITEMS
* Remind students to keep lender informed
* Review loan terms and conditions
* Review student rights and responsibilities
* Review available repayment options
* Review deferment, forbearance, and cancellation conditions
* Review consequences of delinquency and default
* Loan repayment required even if program is not completed or doesn't meet borrower's expectations
* Counsel on personal financial planning
EXIT
* Review loan repayment obligations
* Provide data on average anticipated monthly repayment
* Provide information on debt management strategies
* Provide name and address of borrower's lender
*§Obtain borrower's expected permanent address, expected employer's name and address, address of next of kin
*§Verify school record of borrower's name, address, SSN, references, driver's license number

* recommended as part of Appendix D
§ new requirements

one place where available repayment options, such as loan consolidation and refinancing, might be covered (see Section Five for a brief discussion of loan consolidation and refinancing).

- **The obligations of loan repayment should be emphasized.** You should advise the student to read carefully the loan application, the disclosure statement, and the promissory note with the borrower's rights and responsibilities before signing any of those documents. Often a student loan is the borrower's first experience in obtaining a loan of any kind, and basic loan terminology should be clearly explained, to ensure that borrowers are aware of their obligations. Terms such as "loan servicer" should be defined, and the process of selling loans to other lenders or to "secondary markets" should be explained. Lenders and guaranty agencies provide explanations of these and other terms in the material they make available to students and schools. (A *loan servicer* is a corporation that administers and collects loan payments for the holder of the loan. A *secondary market* is a lender or a private or public agency that specializes in buying student loans.)



The obligations with regard to repayment should be thoroughly covered, and you should explain that the *exact* repayment schedule will not be provided until loan repayment begins. While the disclosure statement and the promissory note contain the total dollar amount of the loan, including interest and fees, they do not necessarily specify the amount of each payment or the frequency with which payments will be made. You should remind the student that certain fees will be subtracted from the loan amount *before* the loan is disbursed, but repayment of the *full* loan amount is required. You should emphasize that loan repayment is required even if the program is not completed or doesn't meet the borrower's expectations. This is one point at which the school's refund policy could be explained in detail, so that students know that if they leave school, for whatever reason, a portion of their loan disbursement *may* be returned to the lender.

It is the student's obligation to keep the lender informed about changes in his or her status, enrollment, or financial condition. The student or parent borrower is required to inform the lender if the student—

- ◊ fails to enroll in school for the period for which the loan was intended;
- ◊ changes schools;
- ◊ changes his or her name or address (including changes in the permanent address while in school);
- ◊ graduates or withdraws from school;
- ◊ wishes to apply for a deferment;
- ◊ wishes to request forbearance; or
- ◊ is having difficulty repaying the loan.

Here is another point at which the school's refund policy could be explained.

It is the student's obligation to maintain satisfactory academic progress according to the standards described in Chapter Two of this *Handbook*.

- **Personal financial planning should be emphasized**. Students should ask themselves questions like "Can I handle Work-Study and still keep my grades up?" "Can I afford loan payments when I graduate, if I major in _____?" Financial planning forces the student to consider whether he or she is ready to handle the burden of a loan or loans. If not presented previously, charts should be shown illustrating the monthly repayment for various loan amounts. The consequences of multiple borrowing should be explained to the student, along with general information on average loan indebtedness. The student also should consider total loan indebtedness as the result of borrowing under more than one loan program over a long period of time—for example, as an undergraduate and a graduate student. This is another point at which information on loan consolidation and refinancing—as considerations for long-range financial planning—might be covered.

- **Students should keep a copy of all documents concerning education loans, and any other student aid received.** This would be a good time, if you have the resources, to provide students with a folder or other aids to encourage them to keep all financial aid materials in one place. The student should keep, at a minimum, the following records:

  - ◊ a copy of the loan application;
  - ◊ a copy of the promissory note and the loan disclosure statement;
  - ◊ a record of any loan checks received;
  - ◊ the loan repayment schedule, sent to the borrower when repayment begins;
  - ◊ a copy of any requests for deferment or forbearance, and of any other correspondence with the lender;
  - ◊ a record of payments made by the borrower, including cancelled checks and money order receipts; and
  - ◊ the most recent name and address of the lender and loan servicer.

- **Borrower rights and responsibilities should be explained.** This could be a part of the discussion on obligations of loan repayment, or treated separately. While many borrower rights and responsibilities will be covered in the course of the presentation, it's important to review them as a unit at some point.

  The borrower has a right to—

  - ◊ written information on loan obligations, including loan consolidation and refinancing, and information on borrower rights and responsibilities;
  - ◊ an explanation of default and its consequences;
  - ◊ a copy of the promissory note, and return of the note when the loan is paid in full;
  - ◊ before repayment, information on interest rates, fees, the balance owed on loans, and a loan repayment schedule;
  - ◊ notification, if the borrower is in the grace period or in repayment, no later than 45 days after a lender assigns, sells, or transfers his or her Stafford or Federal PLUS loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom

payments must be sent. The borrower must be provided the following information:

- the identity of the purchasing lender, and the name and address of the new lender or servicer;
- notice of the loan assignment; and
- the telephone number of both the purchasing and selling lenders and servicers;

◊ federal interest benefits, if qualified;
◊ a grace period, if applicable, and an explanation of what that means;
◊ prepayment of the loan without penalty;
◊ deferment, if the borrower qualifies; and
◊ request forbearance (but the lender may not grant it).

As noted in Section Nine under "Consumer Disclosure Requirements," beginning July 1, 1993, you must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at your school.

The borrower is required to—

◊ repay the loan according to the repayment schedule, and notify the lender of anything that affects ability to repay, or eligibility for deferment or cancellation;
◊ notify the lender if he or she graduates, withdraws from school, drops below half-time status, transfers to another school, or changes name, address, or Social Security Number;
◊ notify the lender if he or she fails to enroll for the period covered by the loan;
◊ notify the school of a change of address; and
◊ attend an exit interview before leaving school.

- **Emphasize to students the consequences of delinquency and default**—stress that once they are in default, there is little that can be negotiated with regard to repayment. For example, a defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule.

Please note that, under the default reduction regulations, a person or persons knowledgeable of SFA programs must be available to answer students' questions, either in person or on the telephone, immediately or shortly after the entrance counseling session is over.

EXIT COUNSELING

Exit counseling must be conducted shortly before the borrower ceases at least half-time study. As noted above, students are reminded that one of their obligations as borrowers is to attend an exit counseling session. If the borrower drops out without notifying the school, you must mail exit counseling material to the borrower at his or her last known address within 30 days after you learn that the borrower has left school or failed to attend an exit counseling session. For correspondence programs, you must send the borrower written counseling materials within 30 days after the borrower completes the program. You must request the return to your school of information required under the Higher Education Amendments of 1992 (noted in the following paragraph).

However, if the borrower fails to provide the information, the school is not required to take any further action. As with entrance counseling, if your school is complying with the required default reduction measures, testing of information presented must be part of the exit counseling process.

During exit counseling you must obtain the borrower's expected permanent address after leaving school, the name and address of the borrower's expected employer, and the address of the borrower's next of kin. The Higher Education Amendments of 1992 require schools to correct their records to reflect any changes in the borrower's name, address, Social Security Number, or references, and to obtain the borrower's current driver's license number. Within 60 days after the exit interview, you must provide any updated information you receive from the borrower to the guaranty agency indicated in the borrower's student aid records.

As the entrance/exit counseling illustration indicates, much of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis shifts, however, to loan repayment obligations and debt management strategies. At the exit counseling session, the following points should be stressed:

- **Financial planning for loan repayment is essential to debt management.** Stress the importance of developing a realistic budget based on the student's minimum salary requirements. Emphasize that the loan payment is a "fixed cost," like rent or

utilities. Data on average anticipated monthly payments are useful, especially if students have not yet received loan repayment schedules.

- **Loan repayment obligations should be reviewed**, with emphasis on keeping the lender informed if the borrower is having difficulty in making loan payments. Stress the importance of communicating with the lender in writing, and of keeping copies of all communication to and from the lender. Remind borrowers that they must make payments on their loans even if they don't receive a payment booklet or a billing notice. Payment coupons or billing statements are sent as a convenience for the borrower; failure to receive them does *not* mean the borrower is not required to make payments.

- **Loan refinancing and loan consolidation should be explained** again, and students should be referred to their lenders for more detailed information about these options. Section Five provides basic information on refinancing and loan consolidation.

- **Review deferment, forbearance, and cancellation provisions** of Stafford and PLUS programs. Remind students that these provisions require action on their part—borrowers must apply to the lender for deferment, forbearance, or loan cancellation, using appropriate forms provided by the lender. Emphasize that while waiting for approval of the request for any of these conditions, students should continue to make payments on the loan, to avoid the possibility of delinquency and default.

- **Emphasize the consequences of delinquency and default, and the importance of keeping the lender informed** of changes in status, in address, or if the borrower is having difficulty making loan payments.

NOTE:

It would be helpful at this point to remind the borrower that the *lender* (or holder of the borrower's loan) is now required to keep the *borrower* informed of address changes. As mentioned previously under borrower rights, the borrower must be notified no later than 45 days after a lender assigns, sells, or transfers his or her Stafford, SLS, or PLUS loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

- ◊ notice of the loan assignment;
- ◊ the identity of the purchasing lender, and the name and address of the new lender or servicer; and
- ◊ the telephone number of both the purchasing and selling lenders and servicers.

Notification of this change must be made either jointly or separately by both purchasing and selling lenders.

- **Obtain, from each borrower, a permanent address, address of the borrower's next of kin, and the name and address of the borrower's expected employer,** if possible. As indicated earlier, within 60 days after the exit interview your school must provide the guaranty agency indicated in the borrower's student aid records with the name, latest known address, employer, and employer address of a borrower who has attended your school.

SECTION ELEVEN: ADDITIONAL REQUIREMENTS AND RESPONSIBILITIES OF SCHOOLS

This section covers additional requirements and responsibilities schools must meet which have not been covered in previous sections. The requirements for an equitable refund policy, for sending information to lenders, for meeting recordkeeping and audit requirements, and for verification of loan applications are covered below. A statement of the prohibition of the use of commissioned salespersons is also provided here. The school's requirements for providing consumer information to students and prospective students are provided in Section Nine of this chapter.

REFUND POLICY

Requirements for refund standards

Each school must establish a fair and equitable refund policy for making a refund of unused tuition, fees, and room and board charges to a student who receives a loan and does not enroll for the academic period for which the loan was intended, or who does not complete the academic period for which a loan was made. (The policy, of course, extends to a parent Federal PLUS borrower for such a student.) The Higher Education Amendments of 1992 define a "fair and equitable refund policy" as one that provides for a refund of at least the largest amount provided under—

- the requirements of applicable state law;
- the specific refund requirements established by the school's nationally recognized accrediting agency and approved by the U.S. Department of Education; or

- the *pro rata* refund calculations as defined in the Higher Education Amendments of 1992 and in the FFEL Program regulations, Section 682.606(c).

Pro rata refund requirements now apply to all schools, regardless of a school's default rate. *Pro rata* refunds must be given to all first-time students whose withdrawal date is on or before the 60 percent point in time during the student's period of enrollment.

Refund policy must be in writing

The school must state its refund policy clearly (in writing) and clearly state the procedure a student must follow to obtain a refund. The school must provide (in writing) a statement containing its refund policy to a prospective student prior to the student's acceptance for enrollment. The school must also make its refund policy known to currently enrolled students. If its refund policy changes, the school must inform all students of the change.

Refunds of the proceeds of a Federal Stafford or PLUS loan must be made to the lender within 30 days of the school's determination that a student has failed to enroll. If the student has withdrawn from school, the refund must be made within 60 days of the school's determination of withdrawal.

Refund policy timeframes

Therefore, in reference to the refund policy for withdrawn students (in which the school makes a refund to the student via the lender), a refund must be made within 60 days after the student's official withdrawal date. If a student drops out, the school must pay the refund within 60 days of the earliest of—

- the date the student dropped out according to the school;
- the expiration of the academic term in which the student withdrew; or
- the expiration of the period of enrollment for which the student has been charged.

Concerning the refund policy for a student who has taken a leave of absence and has not returned to an institution, refunds due must be paid to a student within 60 days of whichever of the following dates is earlier: a) the expiration of the leave of absence; or b) the date of notification by the student that he or she will not be returning to the institution after the expiration of the leave of absence. If the student was on an unapproved leave of absence, the refund must be made within 60 days of the student's last recorded date of class attendance.

All refunds must be sent directly to the lender—they must not be given to the student or parent.

If a refund is due a student, the refund shall first be credited to any outstanding balance on an FFEL, before crediting funds to other SFA programs. When the school makes a refund to the lender, it must notify the student in writing and, if the borrower is the student's parent, it must also notify the parent.

For more information about refunds, and for refund calculation procedures, see Chapter Three of the *Handbook*.

NOTE:
an amendment to the FFEL regulations deletes the school closure plan requirement from the regulations. Schools previously affected by the plan are not required to submit or implement a closed school plan.

STATE POSTSECONDARY REVIEW ENTITIES

The Higher Education Amendments of 1992 set new oversight responsibilities for determining the quality of education provided by postsecondary schools. These oversight responsibilities are shared by the states, accrediting agencies, and the U. S. Department of Education. Under the Amendments, accrediting agencies are to focus on the quality of education provided by the schools they accredit; states will review schools that meet certain statutory review criteria; and the Department will continue to evaluate the administrative and financial capability of schools with regard to participation in SFA programs. A regulation was published on April 29, 1994 to set forth the procedures and criteria for recognizing accrediting agencies.

EXCHANGE OF INFORMATION REQUIREMENTS

Schools are required to inform the lender or the guaranty agency within 30 days of discovery of any change in a Stafford borrower's permanent address. Schools also must provide to a lender or guaranty agency, on request, a borrower's name, address, and if possible, employer and employer address. Within 60 days after the exit interview, schools must provide to the guaranty agency listed in the borrower's student aid records

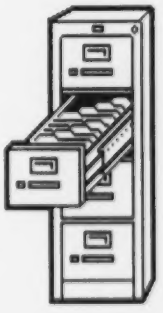
updated information about the borrower's future permanent address, Social Security Number, identity and address of expected employer, address of next of kin, and borrower's driver's license number.

To promote loan repayment, schools now may make an agreement to provide the holders of delinquent loans made to current or former students with information about the delinquent borrower's location or employment, and may try to contact the borrower and counsel him or her to avoid default.

Lenders now must provide schools with the name and Social Security Number of the student for whom a parent is borrowing a PLUS loan. If a lender has requested preclaims assistance from a guaranty agency, the guaranty agency (rather than the lender) must provide the school at which the borrower obtained a loan with the borrower's name, address, and Social Security Number, and may charge the school a reasonable fee for the service. The school may only use the information to remind the borrower to repay his or her loan(s).

At the request of a school, a guaranty agency must provide, without charge, information about students enrolled at the school who are in default on a loan under the FFEL programs. The guaranty agency must also provide the school, on request, notice of sale, transfer, or assignment of the loan to another holder, including the address and telephone number of the new holder of the loan. This requirement must be met prior to the beginning of the loan repayment period, but only applies if a borrower is in the grace period or is in repayment.

RECORDKEEPING, AUDITS, AND REPORTS



A school must maintain the following student loan records:

- the name of the borrower and a copy of the loan application;

  if the PLUS borrower is a parent, the name of the student on whose behalf the loan was made;

- the name and address of the lender;

- the amount of the loan and the period for which the loan was intended;

- financial assistance available to the student used in determining estimated financial assistance for the loan period;
- the data used to construct an individual student's budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance;
- the amount of the student's tuition and fees for that period, the date the student paid the tuition and fees, and the date the loan check was received and delivered to the student;
- the amount and basis for calculation of any refund paid to or on behalf of the student; and
- for subsidized Stafford Loans, the data used to determine the student's EFC.

Additional records requirements for Stafford Loans

For Stafford Loans, loan records must also contain the following information:

- the date the school received each loan disbursement and the amount of the disbursement;
- the date the loan check was endorsed by the school;
- the date(s) of transmittal of loan proceeds to the student;
- a record of the student's job placement, if known; and
- documentation of Federal Pell Grant eligibility or ineligibility for Stafford Loan borrowers.

Each school must establish a fiscal and administrative recordkeeping system, which may be maintained in computer or microfilm form. If a school is a lender and the holder of a promissory note, it must also retain the original note, to be returned to the borrower upon completion of repayment. A school must have an audit by an independent certified public accountant performed at least once every two years, covering the period of time since the previous audit. A school must agree to allow the U.S. Department of Education or a guaranty agency to audit school records periodically to determine compliance with SFA regulations.

The Department has published regulations requiring an annual audit of a school's entire financial condition and of its compliance with SFA program

requirements. If an institution meets certain performance standards, it can submit these compliance audits on a "reviewed or compiled basis" rather than having to submit a full compliance audit. This exception is explained in the Student Financial Assistance Programs Audit Guide, as referenced in the Student Assistance General Provisions and FFELP Interim Final Rule published April 29, 1994. In the corresponding Final Rule published November 29, 1994, general provisions regarding the submission of annual compliance audits are given.

SSCR requirements

Student Status Confirmation Reports (SSCRs) are a reflection of a school's FFEL borrower data. If these reports are not reconciled and reflect inaccurate data, the school's cohort default rate will probably contain inaccuracies. The school is responsible for completing an SSCR received from the Department or from a guaranty agency and returning it to the originating agency within 30 days. The FFEL Program regulations, Section 682.401(b)(18), and Section 682.610(c) provide more detail on the SSCR; Appendix B of the FFEL Program regulations provides a model SSCR for guaranty agencies to use.

Loan records must be kept for five years

For Stafford and PLUS loans, you must keep all required records of each student who graduates, withdraws, or fails to enroll at least half time for five years following the last date of the period for which the loan was intended. You also must keep copies of reports and other forms related to Stafford and PLUS loans for five years after their completion. If the records are involved in a federal audit procedure, they must be retained until the audit is completed. In the event of the closure, termination, suspension, or change of ownership of a participating school, that school or its successor must not only make provision for the retention of these records but must allow for access to the records by designated federal officials for purposes of audit and examination.

Schools with default rates above 20 percent are required to undergo a biennial on-site guaranty agency review of their FFEL programs unless the administration of the school is operating under an approved default management plan, or the school's default rate is based on loans entering repayment totalling less than $100,000 in a given year.

Audit guide updated

The Stafford Loan and PLUS Programs are included in a combined *Audit Guide: Audits of Student Financial Assistance Programs.* The audit guide has been reissued to reflect changes made by the Higher Education Amendments of 1992. The annual compliance audits described above are to be conducted by an independent auditor in accordance with the U.S. General Accounting Office's (GAO's) Government Accounting Standards. This publication sets forth general accounting standards and the standards specifically for compliance audits.

These are some of the requirements subject to audit:

Requirements subject to audit - see *Audit Guide*

- The institution must determine student eligibility. If the PLUS borrower is a parent, you must also determine whether the parent is eligible to borrow on behalf of an eligible dependent student. Determination of Pell eligibility for undergraduate Stafford borrowers is also required.

- The institution is responsible for completing portions of the loan application regarding student eligibility, the student's estimated cost of attendance, the student's estimated financial assistance, and, if applicable, the expected family contribution.

- The institution must follow prescribed procedures in the FFEL Program regulations, Sections 682.604 and 682.606, for handling loan proceeds—which vary depending on whether the student does or does not enroll, and whether the proceeds are payable to the student only, or jointly to the student and the institution.

- When an institution becomes aware that: (1) a student with a deferment no longer meets the conditions for an in-school deferment, (2) a student who received a loan or for whom a PLUS loan was received failed to enroll at least half time for the period for which the loan was intended or was otherwise ineligible for the loan, or (3) a student's permanent address has changed, the information must immediately be reported to the lender or the guaranty agency.

- The institution must submit Student Status Confirmation Reports to the appropriate guaranty agency periodically.

- The institution must report a change in a student's enrollment status directly to the lender or guaranty agency if a student has graduated, withdrawn, or ceased to be enrolled at least half time and (1) the change is one which would normally be reported on a Student Confirmation Report and (2) the school does not expect to submit its next Student Status Confirmation Report to the Secretary (or guaranty agency) within the next 60 days.

- The institution must establish adequate entrance and exit counseling procedures.

- The institution's refund policy must conform to applicable standards.

- If applicable, the institution must establish procedures to identify students eligible for a *pro rata* refund, and provide the refunds as required.

New Program Participation Agreement requirements

The Higher Education Amendments of 1992 added a number of requirements to the Program Participation Agreement. Two of those requirements apply specifically to the FFEL Program. One is a requirement that a school beginning participation in the FFEL Program after a change of ownership or a change in the school's status must develop a Default Management Plan for approval by the Department, and maintain the plan for two years after certification. The other requirement provides that if a student is unable to pay costs of attendance owed a school because of a delay in delivery of FFEL loan proceeds, and the delay is the fault of the school or is due to SFA program requirements, the school may not penalize the student.

Other FFEL-related provisions of the Program Participation Agreement require a school to—

- provide students with recent data on employment and graduation statistics when advertising job placement rates to recruit students;

- inform enrolled eligible borrowers of the availability of state grant assistance from the state in which the school is located, and a source of information for programs in the home state of the eligible borrower; and

- certify the availability of a drug abuse prevention program for officers, employees, and students of the school.

The Agreement also prohibits schools from charging students fees for processing applications or data required to determine eligibility for SFA programs, or for processing FFEL Program deferment forms, and prohibits the certification of loans in excess of the student's eligibility. Your school should have received a copy of Dear Colleague letter GEN-87-2 (January 1987), which provides information about the Program Participation Agreement and instructions for its execution.

VERIFICATION REQUIREMENTS

Of the FFEL programs, only subsidized Stafford Loans are covered by the verification requirements of the General Provisions regulations. PLUS loans, unsubsidized Stafford Loans, and Stafford Loans made for study at foreign schools are not covered by verification requirements. For detailed information about verification of applications for federal student aid, see *The Verification Guide, 1994-1995.*

The items to be verified on a student's financial aid application used in computing the EFC for subsidized Stafford Loans are:

- adjusted gross income (or income earned from work) for the base year;
- U.S. income tax paid for the base year;
- number of family members in the household;
- number of family members attending postsecondary educational institutions as at least half-time students; and
- The following untaxed income and benefits for the base year (if applicable):
  - ◊ Social Security benefits;
  - ◊ child support;
  - ◊ untaxed payments to IRA and/or Keogh plans;
  - ◊ foreign income exclusion;
  - ◊ earned income credit;
  - ◊ interest on tax-free bonds; and
  - ◊ other untaxed income included on the U.S. income tax return (excluding schedules).

PROHIBITED ACTIVITY BY SCHOOLS AND LENDERS

An eligible school may not employ or use commissioned salespersons to promote the availability of loans. A "commissioned salesperson" is any person who receives compensation that is related to, or calculated on the basis of, student applications, enrollments, or acceptances. "Promote the

availability" means providing prospective or enrolled students with applications, names of lenders, or other information designed to encourage students to apply for a Stafford or PLUS loan. This term does not prohibit a commissioned salesperson from providing general financial aid information to prospective or enrolled students. However, the Higher Education Amendments of 1992 prohibit any commission, bonus, or other incentive payments based on an employee's success in securing enrollment, admissions, or awarding student aid. (This prohibition does not apply to the recruitment of foreign students who are not eligible for SFA assistance.)

Similarly, guaranty agencies and lenders are prohibited by law from offering inducements (such as points, premiums, or payments) to schools or individuals as a means to market loans. Lenders are also forbidden to mail unsolicited loan application forms to students, unless the student has previously obtained a student loan from that lender. Dear Colleague letter 89-S-55 (February 1989) provides specific examples of activity prohibited by law, and also provides examples of permissible activities.

A school may not make payments to induce lenders to make loans to students (or to the parents of students) at that school. Examples of prohibited inducements are provided in Section 682.212(b) of the FFEL Program regulations, and in Section 682.401(e)(2)(i) under "Basic Program Agreement" in the FFELP Final Rule published June 28, 1994.

GUARANTY AGENCIES

ALABAMA
Alabama Commission on Higher Education
ATTN: Dorenda Adams
3465 Norman Bridge Road
Montgomery, Alabama 36105

(205) 281-1921

ALASKA
Alaska Commission on Postsecondary Education
Alaska Student Loan Corporation
3030 Vintage Boulevard
Juneau, Alaska 99801-7109

(907) 465-2962

ARIZONA
Arizona Educational Loan Program
United Student Aid Funds, Inc.
P.O. Box 3028
Chandler, Arizona 85244-3028

(800) 824-7044
(800) 428-9250
(800) 382-4506 (within Arizona)

ARKANSAS
Student Loan Guarantee Foundation of Arkansas
219 South Victory Street
Little Rock, Arkansas 72201-1884

(501) 372-1491
(800) 622-3446

CALIFORNIA
California Student Aid Commission
P.O. Box 510845
Sacramento, California 94245-0845

(916) 445-0880
(800) 367-1589 (to make payment arrangements)
(916) 322-9277 (billing problems)

COLORADO
Colorado Guaranteed Student Loan Program
Suite 425
999 18th Street
Denver, Colorado 80202-2440

(303) 294-5069 (status check)
(303) 294-5050 (main number)
(800) 289-7378

CONNECTICUT
Connecticut Student Loan Foundation
525 Brook Street
P.O. Box 1009
Rocky Hill, Connecticut 06067

(203) 257-4001
(800) 237-9721 (within Connecticut)
(800) 345-6055 (outside Connecticut)

DELAWARE
Delaware Higher Education Loan Program
Carvel State Office Building
Fourth Floor
820 North French Street
Wilmington, Delaware 19801

(302) 577-6055

DISTRICT OF COLUMBIA
American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292

(617) 426-9796
(800) 999-9080

FLORIDA
Florida Department of Education
Office of Student Financial Assistance
325 West Gaines Street
1344 Florida Education Center
Tallahassee, Florida 32399-0400

(904) 488-4095

GEORGIA
Georgia Student Finance Commission
Suite 200
2082 East Exchange Place
Tucker, Georgia 30084

(404) 414-3200
(800) 776-6878

HAWAII
Hawaii Educational Loan Program
P.O. Box 22187
Honolulu, Hawaii 96823-2187

(808) 536-2262
(808) 536-3731

IDAHO
Student Loan Fund of Idaho, Inc.
P.O. Box 730
Fruitland, Idaho 83619

(208) 452-4058
(800) 528-9447 (within Idaho)

ILLINOIS
Illinois Student Assistance Commission
1755 Lake Cook Road
Deerfield, Illinois 60015-5209

(708) 948-8550
(800) 934-3572 (defaulted loans only)

INDIANA
State Student Assistance Commission of Indiana
Loan Division
Suite 500
150 West Market Street
Indianapolis, Indiana 46204-2811

(317) 232-2366

IOWA
Iowa College Student Aid Commission
Suite 201
914 Grand Avenue
Des Moines, Iowa 50309-2824

(515) 281-4890
(800) 383-4222

KANSAS
United Student Aid Funds, Inc.
USA Group
11100 USA Parkway
Fishers, Indiana 46038
-or-
USA Group
P.O. Box 6180
Indianapolis, Indiana 46026-6180

(317) 849-6510
(800) 824-7044

KENTUCKY
Kentucky Higher Education Assistance Authority
Suite 102
1050 U.S. 127 South
Frankfort, Kentucky 40601-4323

(502) 564-7990
(800) 928-8926

LOUISIANA
Louisiana Office of Student Financial Assistance
P.O. Box 91202
Baton Rouge, Louisiana 70821-9202

(504) 922-1011
(800) 259-5626

MAINE
Finance Authority of Maine
1 Weston Court
State House Station 119
Augusta, Maine 04333

(207) 287-2183
(800) 228-3734 (within Maine)

MARYLAND
Maryland Higher Education Loan Corporation
Room 305
2100 Guilford Avenue
Baltimore, Maryland 21218

(410) 333-6555

MASSACHUSETTS
American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116

(617) 426-9434
(800) 999-9080

MICHIGAN
Michigan Guarantee Agency
P.O. Box 30047
Lansing, Michigan 48909

(517) 373-0760
(800) 642-5626

MINNESOTA
Northstar Guarantee, Inc.
Suite 1910
444 Cedar Street
St. Paul, Minnesota 55101-2133
-or-
P.O. Box 64102
St. Paul, Minnesota 55164-0102

(612) 290-8795
(800) 366-0032

MISSISSIPPI
Mississippi Guaranteed Student Loan Agency
3825 Ridgewood Road
Jackson, Mississippi 39211

(601) 982-6663
(800) 228-3144 (within Mississippi)
(800) 327-2980 (within Mississippi)

MISSOURI
Coordinating Board for Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109

(800) 473-6757 (within Missouri)
(314) 751-3940

MONTANA
Montana Guaranteed Student Loan Program
2500 Broadway
Helena, Montana 59620-3103

(406) 444-6594
(800) 537-7508

NEBRASKA
Nebraska Student Loan Program
P.O. Box 82507
Lincoln, Nebraska 68501-2507

(402) 475-8686

NEVADA

See United Student Aid Funds, Inc.
Western Regional Center

(800) 824-7044

NEW HAMPSHIRE
New Hampshire Higher Education
Assistance Foundation
P.O. Box 877
Concord, New Hampshire 03302

(603) 225-6612
(800) 525-2577

NEW JERSEY
New Jersey Higher Education
Assistance Authority
Guaranteed Student Loan Program
4 Quakerbridge Plaza CN543
Trenton, New Jersey 08625

(609) 588-3200
(800) 356-5562

NEW MEXICO
New Mexico Student Loan Guarantee Corporation
P.O. Box 27020
Albuquerque, New Mexico 87125-7020

(800) 279-3070
(505) 345-8821

NEW YORK
New York State Higher Education
Services Corporation
99 Washington Avenue
Albany, New York 12255

(518) 474-5592
(800) 642-6234

NORTH CAROLINA
North Carolina State Education
Assistance Authority
P.O. Box 2688
Chapel Hill, North Carolina 27515

(919) 549-8614

NORTH DAKOTA
North Dakota Guaranteed Student Loan Program
P.O. Box 5509
Bismarck, North Dakota 58502-5509

(701) 224-5600
(800) 472-2166

OHIO
Ohio Student Aid Commission
309 South Fourth Street
Columbus, Ohio 43266-0610

(614) 466-8716
(800) 837-6752 (customer service)

OKLAHOMA
Oklahoma State Regents for Higher Education
P.O. Box 3000
Oklahoma City, Oklahoma 73101-3000

(405) 552-4300
(800) 247-0420

OREGON
Oregon State Scholarship Commission
Suite 100
1500 Valley River Drive
Eugene, Oregon 97401

(503) 687-7400
(800) 452-8807 (nationwide)

PENNSYLVANIA
Pennsylvania Higher Education Assistance Agency
1200 North Seventh
Harrisburg, Pennsylvania 17102

(717) 257-2850
(800) 692-7392

RHODE ISLAND
Rhode Island Higher Education
Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886

(401) 736-1100
(800) 922-9855 (outside Rhode Island)

SOUTH CAROLINA
South Carolina Student Loan Corporation
16 Berry Hill Road
Suite 210
Interstate Center
Columbia, South Carolina 29210

(803) 798-0916

SOUTH DAKOTA
Education Assistance Corporation
115 First Avenue, S.W.
Aberdeen, South Dakota 57401

(605) 225-6423

TENNESSEE
Tennessee Student Assistance Corporation
404 James Robertson Parkway
Suite 1950
Parkway Towers
Nashville, Tennessee 37243-0820

(615) 741-1346
(800) 342-1663 (within Tennessee)
(800) 447-1523 (within Tennessee)

TEXAS
Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725

(512) 835-1900
(800) 252-9743

UTAH
Utah Higher Education Assistance Authority
P.O. Box 45202
Salt Lake City, Utah 84145-0202

(801) 321-7200

VERMONT
Vermont Student Assistance Corporation
Champlain Mill
P.O. Box 2000
Winooski, Vermont 05404-2000

(802) 655-9602
(800) 642-3177 (within Vermont)

VIRGINIA
Virginia State Education Assistance Authority
Suite 300
411 East Franklin Street
Richmond, Virginia 23219

(804) 775-4000

WASHINGTON
Northwest Education Loan Association
500 Colman Building
811 First Avenue
Seattle, Washington 98104

(206) 461-5300

WEST VIRGINIA
Pennsylvania Higher Education Assistance Agency
1200 North Seventh
Harrisburg, Pennsylvania 17102

(304) 345-7211
(800) 437-3692 (within West Virginia)

West Virginia Student Loan Corporation
P.O. Box 591
Charleston, West Virginia 25322

(If going to school or has a lender in West Virginia)

WISCONSIN
Great Lakes Higher Education Corporation
2401 International Lane
Madison, Wisconsin 53704

(608) 246-1800

WYOMING
United Student Aid Funds, Inc.
USA Group
11100 USA Parkway
Fishers, Indiana 46038

(800) 824-7044

AMERICAN SAMOA
Hawaii Educational Loan Program
United Student Aid Funds, Inc.
Suite 861
1314 South King Street
Honolulu, Hawaii 96814

(808) 593-2262

NORTHERN MARIANA ISLANDS

See American Samoa

FEDERATED STATES OF MICRONESIA, MARSHALL ISLANDS, REPUBLIC OF PALAU

See American Samoa

VIRGIN ISLANDS
Virgin Islands Joint Boards of Education
P.O. Box 11900
Charlotte Amalie
St. Thomas, Virgin Islands 00801

(809) 774-4546

GUAM

See American Samoa

PUERTO RICO
Higher Education Assistance Corporation
P.O. Box 42001
Minillas Station
San Juan, Puerto Rico 00940-2001

(809) 763-3535

UNITED STUDENT AID FUNDS, INC.
USA Group
11100 USA Parkway
Fishers, Indiana 46038

(317) 849-6510
(800) 824-7044

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

March 16, 1994

Dear Guaranty Agency Directors:

As you know, the Department of Education (the Department) issued a directive several months ago when the student loan and student aid community raised a series of issues about the implementation of section 682.401(b)(2) of the Federal Family Education Loan (FFEL) program regulations that governs a guaranty agency's policy on the frequency of annual loan limits (otherwise referred to as the "7-months rule"). Since that directive was issued, the Department has participated in a series of meetings with representatives of the National Council of Higher Education Loan Programs, Inc. (NCHELP), the National Association of Student Financial Aid Administrators (NASFAA), and other interested parties to examine how the new statutory definition of "academic year" contained in section 481(d)(2) of the Higher Education Act (HEA) impacts on this provision of the FFEL program regulations. Our efforts centered on developing a national standard for determining eligibility for annual loan limits. The participants also worked to ensure that they addressed the anticipated operational issues associated with such a national standard and avoided the problems that grew out of the various interpretations of the earlier 7-months rule. As we reviewed the operational issues, institutional representatives were particularly concerned about differing guaranty agency policies in this area.

Early in its discussion with the community representatives, the Department expressed its view that the new academic year definition in section 481(d)(2) of the HEA now dictated the minimum standard by which annual loan limits must be monitored and had, therefore, effectively superseded the minimum 7-months standard found in the regulations, which were developed before

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

enactment of the 1992 Amendments. During the ensuing discussions, we were able to develop a comprehensive policy on annual loan limits using an academic year standard that we believe will address most of the concerns expressed by the community when they were attempting to implement the earlier 7-months standard. The "Principles to Determine the Frequency for Annual Loan Limits," which is attached to this letter, reflects the Department's guidelines for implementing the approved minimum standard for annual loan limits frequency that must be implemented by guaranty agencies no later than July 1, 1994. However, agencies are still permitted, as provided in §682.401(b)(2), to establish a standard for a period that is greater than the academic year but may not exceed 12 months.

In addition to reflecting new statutory requirements, the group's objectives in the development and implementation of the new minimum standard were to establish a policy:

1. that would be standardized for all guaranty agencies and institutions;

2. that would recognize the existing academic year structure at affected term and non-term institutions and be sensitive to students who seek to complete academic programs on an accelerated basis; and

3. that would be consistent with existing student aid policies and regulatory requirements that have worked well in other Title IV programs.

The attached principles include several important concepts, including:

1. A minimum standard for annual loan frequency that is based on the term "academic year" as that term is defined in §481 (d)(2) of the HEA and that replaces the 7-months standard of the FFEL program regulations.

2. Flexibility for an institution to apply its academic year (once it has defined it to meet the minimum statutory requirements) but apply it as a standard academic year or a borrower-based academic year depending upon the needs of the student.

3. The treatment of summer eligibility based on the Federal Pell Grant program model that allows institutions to determine to which academic year, preceding or upcoming, their summer term will be attached for purposes of annual loan limits.

4. Flexibility for an institution's aid administrator to treat students on an individual basis.

The Department recognizes that under current regulations a guaranty agency may adopt a policy on annual loan limits for a period longer than that associated with the minimum statutory standards for an academic year. If an agency decides to adopt something other than these minimum standards, it must submit its policy and procedures to the Secretary for approval. To minimize any confusion, the Department requests that an agency submit for approval any policies or procedures that differ from the attached minimum standard prior to implementation of those different procedures.

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We acknowledge with appreciation the work of the NCHELP and NASFAA in the development of the attached material. Their efforts to work with the Department to ensure a standardized policy that would fit the needs of the entire community was critical to the final principles we adopted. Special appreciation, and our special thanks, go to Dan Rodgers, Program Officer, Colorado Student Loan Program (CSLP), for his dedication to creating the attachment. He labored many hours to create drafts of this document and to work with the community to ensure that the principles were tested in actual case studies. The support of CSLP and Dan's work on this project are the type of support I have received from the community during my tenure at the Department. I am grateful for this help.

The attached material is being provided to NASFAA who has agreed to distribute it to their members.

Sincerely yours,

Robert W. Evans
Director
Division of Policy Development

Attachment

U.S. DEPARTMENT OF EDUCATION

ANNUAL LOAN LIMITS: MINIMUM STANDARDS FOR FEDERAL FAMILY EDUCATION LOANS IN GUARANTY AGENCY POLICIES, AND FOR FEDERAL DIRECT STUDENT LOANS

Principles to Determine the Frequency for Annual Loan Limits

Application of Annual Loan Limits to Academic Year

10 PRINCIPLES

1. Annual Loan Limits are now governed by the definition of Academic Year as that term is defined in §481(d)(2) of the Higher Education Act (HEA).

   A. Statutes—

   Section 428(b)(1)(A) authorizes insurance on a Federal Stafford (subsidized) loan for "any academic year or its equivalent (as determined under regulations of the Secretary)." Section 428A(b) specifies Federal SLS Annual Loan Limit maximums are for "any academic year or its equivalent or in any period of 7 consecutive months, whichever is longer." Effective July 1, 1994, loans made under §428H(d) at the increased loan limits for Federal Stafford (unsubsidized) loans are subject to the limits in §428(b)(1), except for loans made to independent and graduate or professional students, and to dependent Students whose parents are unable to borrow under Federal PLUS. Independent, graduate or professional, and "exceptional" dependent borrowers are subject to the "any academic year or its equivalent or in any period of 7 consecutive months, whichever is longer," standard found currently in the SLS program. Because the Academic Year definition in §481(d)(2) includes a 30-week minimum period of instructional time, which will almost without exception be longer than seven months, the Department has determined that the "7 consecutive month standard" contained in §682.401(b)(2) of the FFEL program regulations will no longer be relevant to Annual Loan Limit maximums.

   B. Regulations—

   FFEL: §682.401(b) states that the Annual Loan Limits are "guaranteed for an academic year." The application of the "academic year or its equivalent" statutory standard has been interpreted in regulations (loosely to provide maximum flexibility) to be a "[calendar] period of not less than seven nor more than 12 months" or a period of academic progression encompassing "a period of not less than seven months in which the student earns the amount of credit . . . necessary for the student to advance in academic standing." The more restrictive "greater of the academic year or seven consecutive months" SLS standard is reflected in §682.204(e)(2).

   FDSL: The Direct Loans program will use the Academic Year as the frequency standard for Annual Loan Limit maximums (cf. 34 CFR §685.203(h), published January 4, 1994).

2. By statute (§481(d)(2) of the HEA, as amended by Public Law 103-285, enacted December 20, 1993), an Academic Year shall require at least 30 weeks of instructional time, and, with respect to an undergraduate course of study, shall require that during such minimum period of instruction time a full-time student is expected (scheduled) to complete at least 24 semester or trimester hours or 36 quarter hours at an institution that measures program length in credit hours, or at least 900 clock hours at an institution that measures program length in clock hours. The Secretary may reduce such minimum of 30 weeks to not less than 26 weeks for good cause, as determined by the Secretary on a case-by-case basis, in the case of an institution of higher education that provides a 2-year or 4-year program of instruction for which the institution awards an associate or baccalaureate degree.

3. For institutions using academic terms (e.g., semesters, trimesters, or quarters), an Academic Year for the purpose of determining the frequency of Annual Loan Limits in the FFEL and FDSL programs must be either one of the following:

   A. *Scheduled* Academic Year: The Scheduled Academic Year is the "fixed" academic period advertised in the institution's printed materials and generally begins and ends at approximately the same time each new year according to an established schedule (e.g., begins with the Fall Semester or Quarter and ends with the Spring Semester or Quarter). The Scheduled Academic Year is the academic period to which the statutory definition of an Academic Year must be applied at a minimum.

   B. *Borrower-Based* Academic Year: The Borrower-Based Academic Year is individualized per borrower and generally "floats" with the borrower's attendance and progress. A Borrower-Based Academic Year may begin at any time within the institution's Scheduled Academic Year based upon the borrower's start date in a program of study (e.g., Spring Semester or Winter Quarter) or with a period of time not included in the institution's Scheduled Academic Year (e.g., the Summer Term). If the Borrower-Based Academic Year does not correspond to the institution's Scheduled Academic Year, the Borrower-Based Academic Year must meet the statutory requirements of an Academic Year *or its equivalence*. To apply a Borrower-Based Academic Year at a term-based institution, the borrower is not required to attend the entire Borrower-Based Academic Year (as is the same case for the Scheduled Academic Year) although the Loan Period must coincide with the student's actual period of enrollment (also see Principle #7). However, each Borrower-Based Academic Year must begin with a term the student actually attends (in contrast to the Scheduled Academic Year). Even though an unattended term, whether part of the Scheduled Academic Year or not, may not begin a Borrower-Based Academic Year, it may complete a Borrower-Based Academic Year.

4. Equivalence for a Borrower-Based Academic Year at a term-based institution is determined in two steps:

   A. First, the institution counts the number of terms in its Scheduled Academic Year. The total number of terms in the Scheduled Academic Year represents the minimum number of terms that must be included in a Borrower-Based Academic Year. As a consequence of these computations, a Borrower-Based Academic Year will be composed of the same terms as in the Scheduled Academic Year, or composed of one or more terms in the Scheduled Academic Year *and* at least one term outside the Scheduled Academic Year. For example, an institution has two terms (Fall and Spring Semesters) in its Scheduled Academic Year; therefore, every two terms may be counted as a Borrower-Based Academic Year: a) Fall and Spring Terms—corresponding to the Scheduled Academic Year, b) Summer and Fall Terms, or c) Spring and Summer Terms. At an institution with three quarters in its Scheduled Academic Year, every three terms may be counted as a Borrower-Based Academic Year: a) Fall, Winter, and Spring Terms—corresponding to the Scheduled Academic Year, b) Winter, Spring, and Summer Terms, c) Spring, Summer, and Fall Terms, or d) Summer, Fall, and Winter Terms. For purposes of this determination, all Summer mini-terms are counted as one term.

   B. Second, the institution must include in the Borrower-Based Academic Year only those terms in which it is or was possible for the student to enroll on at least a half-time basis. The definitions of full-time and half-time attendance are determined by the institution. Institutions are reminded that they may determine the full-time and half-time attendance definitions for the Summer Term using a different standard than the full-time and half-time attendance definitions used for terms during the Scheduled Academic Year (e.g., the Fall and Spring Semesters or the Fall, Winter, and Spring Quarters).

   Note: In applying this equivalent definition, the Borrower-Based Academic Year (that does not correspond to the Scheduled Academic Year) may not necessarily include 30 weeks of instructional time or the minimum number of credit hours required for the Scheduled Academic Year.

5. For borrowers enrolled in programs of study at institutions that are not term-based, the Academic Year is always a Borrower-Based Academic Year. Additionally, such a Borrower-Based Academic Year must meet the statutory definition of an Academic Year since the required number of clock or credit hours must be completed by a student before a new Academic Year may commence. Consequently, an equivalent Academic Year may not be applied in a non-term institution. Such Borrower-Based Academic Years begin with the student's start date and track the borrower's progress until the required number of weeks and credit or clock hours have been completed by the student for the Academic Year, or the program length if less. For example, the Academic Year may represent an eight-month calendar period commencing May 1 (start date) with an end date of December 31 in which a student (or group of students) in a certificate program is expected to complete a program of study that is one Academic Year in length (e.g., 30 weeks of instructional time and 900 clock hours).

6. An institution's Academic Year need not correspond to the award year, which is defined in §481(d)(1) of the HEA as the period beginning July 1 and ending June 30 of the following year. Additionally, a Borrower-Based Academic Year in the FFEL and FDSL may not necessarily be concurrent with the Academic Year or award period applicable to the Campus-based and Federal Pell Grant programs. For example, the institution may have awarded a Federal Pell Grant and a Federal SEOG for the Fall and Spring Scheduled Academic Year, whereas the student's Federal Stafford Loan is applied to a Spring and Summer Borrower-Based Academic Year.

7. Although the Academic Year dictates the frequency by which a borrower regains eligibility for annual limits, it does not, at a term-based institution, dictate the Loan Period certified. For example, the Scheduled Academic Year may be a period that includes Fall, Winter, and Spring Quarters; however, the Loan Period (period of enrollment for which a loan application is certified) may be only the Fall and Winter Quarters. The same is true for a Borrower-Based Academic Year at a term-based institution—such an Academic Year might be applied to the Spring and Summer Terms, whereas the Loan Period is certified for the Spring Semester only.

   When the Loan Period does not correspond to the Academic Year, the institution should be particularly diligent in monitoring Annual Loan Limit maximums to prevent overawards, especially if the institution is using the Borrower-Based Academic Year. For example, an institution processes a Spring Semester only Loan Period for the maximum Annual Loan Limit in a Borrower-Based Academic Year composed of the Spring and Summer Terms. If the same student at the same grade level applies for a Summer Term only Loan Period (or any other Loan Period that includes the summer), the institution cannot certify the loan because the student has already received the maximum Annual Loan Limit for the Academic Year—in this case, a new Borrower-Based Academic Year does not begin until the Fall Semester (and corresponds to the Scheduled Academic Year, as well). Please note exceptions for certifying additional amounts for grade-level progressions below.

   Also, the institution must ensure that it does not establish "overlapping" Academic Years for a borrower. For instance, in the above example, the institution would not establish one Borrower-Based Academic Year composed of the Spring and Summer Terms, then establish another Borrower-Based Academic Year composed of the Summer and Fall Terms because the Summer cannot be included in two different, or overlapping, Academic Years for loans under the FFEL and FDSL programs.

8. A term-based institution with a Scheduled Academic Year has the following options in processing loans for a borrower's attendance in a Summer Term. For any determination of eligibility under a new Annual Loan Limit for a borrower, the institution may elect any one of the options as an across-the-board institutional policy or may apply them on a case-by-case basis:

   A. Scheduled Academic Year + Summer Term
   (Summer Term is Added onto the End of the Academic Year—as a "Trailer".)

   B. Summer Term + Scheduled Academic Year
   (Summer Term is Added onto the Beginning of the Academic Year—as a "Leader".)

   C. Borrower-Based Academic Year

   Under options A and B, the Summer Term is considered an add-on to the Scheduled Academic Year for purposes of Annual Loan Limits. If the institution's Scheduled Academic Year does not meet the statutory minimum in §481(d)(2) of the HEA in either credit hours or weeks of instructional time, then the institution's options are restricted to A and B—the institution may not use option C (Borrower-Based Academic Year).

   Note: For an institution that is not term-based, treatment of a "summer period" is irrelevant because §682.603(f) requires the school to certify a Loan Period to correspond to the borrower's Academic Year or program of study (or remaining portion of the program of study).

9. The Academic Year (either Scheduled or Borrower-Based) now dictates the frequency for receipt of Annual Loan Limit maximums. For a borrower who has borrowed up to the maximum Annual Loan Limit for the Academic Year at a particular grade level, the calendar period associated with the Academic Year (and the add-on summer component, if applicable) must elapse before the borrower regains eligibility for another Annual Loan Limit maximum. However, if the borrower progresses to the next grade level, or enrolls in a program of study with a higher prorated or full Annual Loan Limit, the borrower may borrow, during the same period of enrollment, an additional loan amount that represents the difference between the applicable Annual Loan Limits for the grade levels or programs of study certified.

10. A borrower who has received the maximum Annual Loan Limit for his or her last year of undergraduate education and who is accepted into a graduate or professional program may borrow, within the same period of enrollment (Academic Year), an additional loan amount that represents the difference between the applicable undergraduate Annual Loan Limit certified for the student at the beginning of the period of enrollment and the graduate-level Annual Loan Limit. Likewise, if a dependent student is made independent using professional judgment, the student may borrow the difference between the Annual Loan Limits for an independent student and any amount borrowed under the dependent Annual Loan Limits for the same period of enrollment.

Application of Annual Loan Limits to Academic Year (Term-Based Institution)

Option A: Scheduled Academic Year + Summer Term
(Summer Term is added onto the end of the Academic Year—as a *Trailer.)*

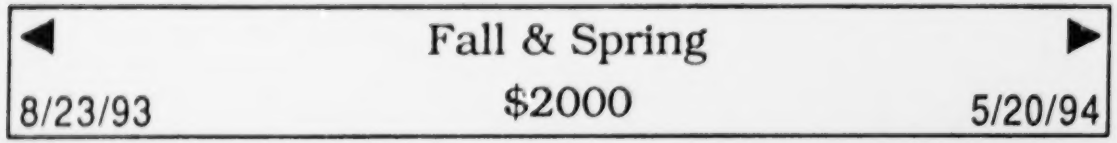
◄ Scheduled Academic Year ►		◄ Summer ►	
8/23/93	5/20/94	6/6/94	8/12/94
◄ Annual Loan Limit applies to this time frame. ►			

- The Scheduled Academic Year is *fixed* and begins and ends at approximately the same time each year (e.g., begins with the Fall Semester or Quarter and ends with the Spring Semester or Quarter).
- The Summer Term is treated as an add-on to the Scheduled Academic Year. Annual Loan Limits are measured with this period if the student attends the Summer Term.
- The institution *must subtract* any amount received during the Scheduled Academic Year from the Annual Loan Limit to determine the remaining amount of loan eligibility available to a borrower for the Summer Term.
- The student regains eligibility immediately for a new Annual Loan Limit in the *next* Academic Year, or during the current Academic Year for the difference in Annual Loan Limit if the student progresses to the next grade level with a higher Annual Loan Limit.
- Any required loan proration for programs of study of less than an Academic Year or the "remaining balance" of a program of study is determined based upon the Scheduled Academic Year.
- A Borrower-Based Academic Year is not applicable.

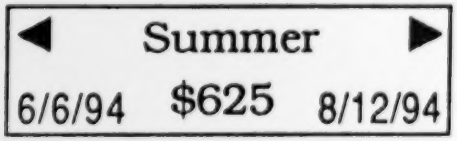
Application of Annual Loan Limits to Academic Year (Term-Based Institution)

Example A1: *(John)*

Fall & Spring Loan Period (Scheduled Academic Year) at Grade Level 1—
John applies for a $2000 Federal Stafford Loan.
Institution certifies $2000.



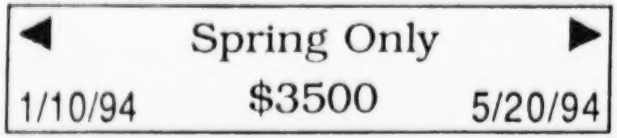
Summer Term Loan Period at Grade Level 1—
John applies for a $2625 Federal Stafford Loan, the Annual Loan Limit maximum at this grade level.
Institution certifies only $625, his remaining loan eligibility at Grade Level 1.



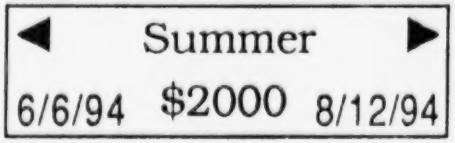
The institution must subtract any amount received during the Scheduled Academic Year from the Annual Loan Limit to determine the remaining amount available for the Summer Term. John regains eligibility immediately in the next Academic Year, which begins 8/22/94.

Example A2: *(Janet)*

Spring Semester Only Loan Period at Grade Level 2—
Janet applies for a $3500 Federal Stafford Loan.
Institution certifies $3500, the Annual Loan Limit maximum at this grade level.

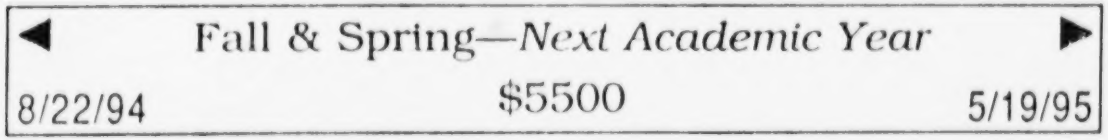


Summer Term Loan Period *at Grade Level 3*—
Janet applies for a $5500 Federal Stafford Loan, the Annual Loan Limit maximum at this grade level.
Institution certifies only $2000.



Janet is eligible to borrow only the difference due to the increased Annual Loan Limit for the next higher grade level to which she progressed after the end of the Spring Semester.

Fall & Spring Loan Period*(Next Academic Year)* at Grade Level 3—
Janet applies for a $5500 Federal Stafford Loan.
Institution certifies $5500.



Janet regained eligibility immediately in the next Academic Year.

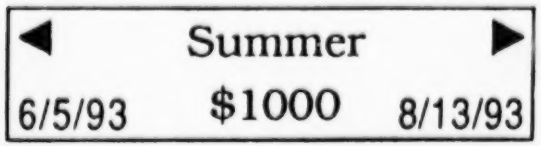
Application of Annual Loan Limits to Academic Year (Term-Based Institution)

Option B: Summer Term + Scheduled Academic Year
(Summer Term is added onto the beginning of Academic Year—as a *Leader.)*

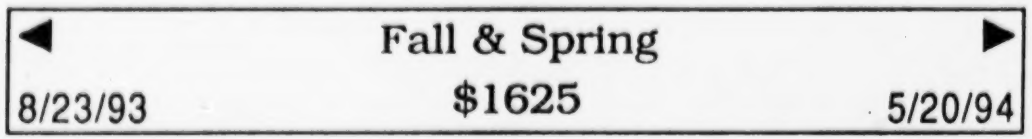
◄ Summer ►		◄ Scheduled Academic Year ►	
6/5/93	8/13/93	8/23/93	5/20/94
◄ Annual Loan Limit applies to this time frame. ►			

- The Scheduled Academic Year is *fixed* and begins and ends at approximately the same time each year (e.g., begins with the Fall Semester or Quarter and ends with the Spring Semester or Quarter).
- The Summer Term is treated as an add-on to the Academic Year. Annual Loan Limits are measured with this period included if the student attends Summer Term.
- The institution *must subtract* any amount received during the Summer Term from the Annual Loan Limit to determine the amount for the Scheduled Academic Year that follows.
- The student regains eligibility immediately for a new Annual Loan Limit in the *next* Summer Term (with the new Academic Year), or during the current Academic Year for the difference in Annual Loan Limit if the student progresses to the next grade level with a higher Annual Loan Limit.
- Any required loan proration for programs of study of less than an Academic Year or the "remaining balance" of a program of study is determined based upon the Scheduled Academic Year.
- A Borrower-Based Academic Year is not applicable.

Example B1: *(Janelle)*
Summer Term Loan Period at Grade Level 1—
Janelle applies for a $1000 Federal Stafford Loan.
Institution certifies $1000.



Fall & Spring Loan Period (Academic Year) at Grade Level 1—
Janelle applies for a $2625 Federal Stafford Loan, the Annual Loan Limit maximum at this grade level.
Institution certifies only $1625, her remaining loan eligibility at Grade Level 1.

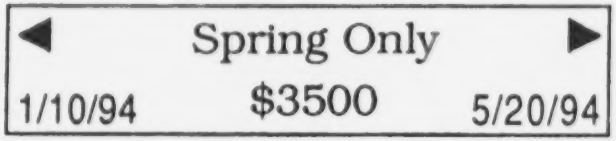


The institution must subtract any amount received for the Summer Term from the Annual Loan Limit to determine the remaining amount available for the Academic Year. Janelle regains eligibility immediately in the next Summer Term, which begins 6/6/94.

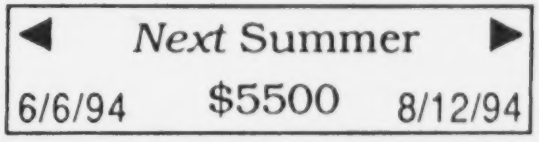
Application of Annual Loan Limits to Academic Year (Term-Based Institution)

Example B2: *(Jeff)*

Spring Semester Only Loan Period at Grade Level 2—
Jeff applies for a $3500 Federal Stafford Loan.
Institution certifies $3500.



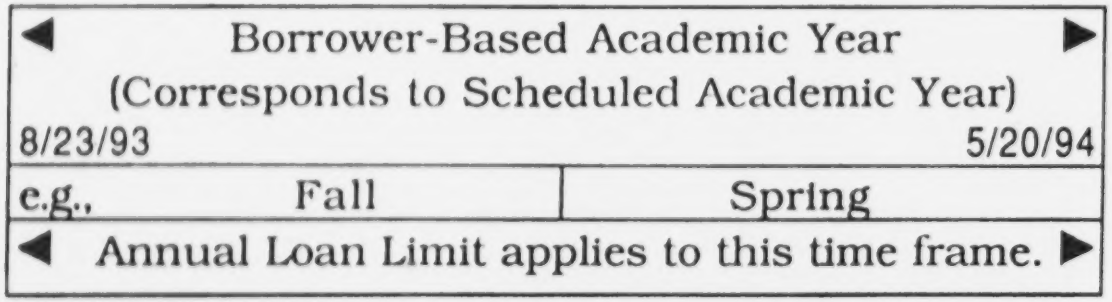
Summer Term Loan Period *(With Next Academic Year)* at Grade Level 3—
Jeff applies for a $5500 Federal Stafford Loan.
Institution certifies $5500.



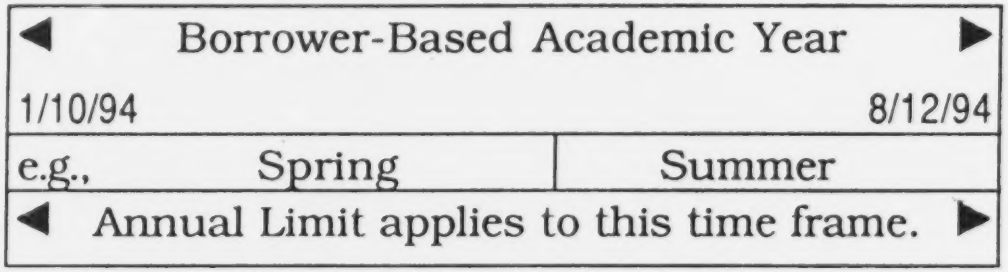
Jeff regained eligibility immediately in the next Summer Term (considered as part of the following Academic Year for Annual Loan Limits only).

Application of Annual Loan Limits to Academic Year (Borrower-Based Academic Year at Term-Based Institution)

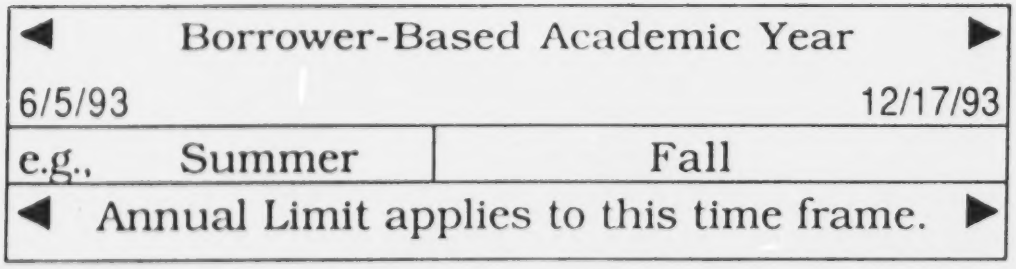
Option C: Borrower-Based Academic Year



Or



Or

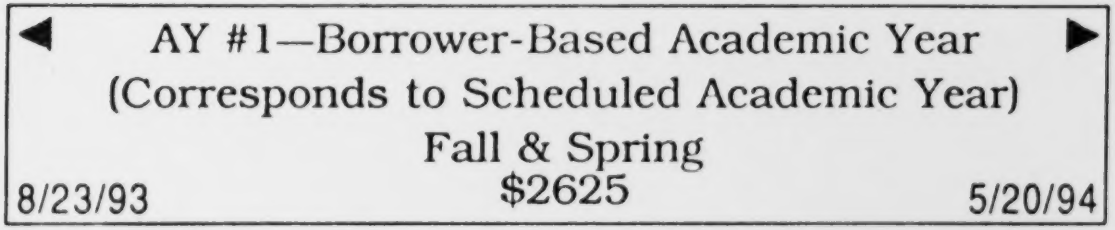


Application of Annual Loan Limits to Academic Year (Borrower-Based Academic Year at Term-Based Institution)

- An institution must have a Scheduled Academic year that meets at least the minimum standards of §481(d)(2) of the Higher Education Act. The Academic Year must correspond to the standard period of enrollment students normally attend—usually the Fall and Spring Semesters or Fall, Winter, and Spring Quarters at term-based institutions.
- The Scheduled Academic Year must meet, at a minimum, the statutory requirements in §481(d)(2) of 30 Weeks of instructional time (or not less than 26 weeks if permitted by the Department) *and*, for undergraduate programs of study, a full-time student is expected to complete at least 24 Semester Credit Hours or 36 Quarter Credit Hours.
- A Borrower-Based Academic Year corresponds to the Scheduled Academic Year, or includes a period of enrollment the student would not be required to attend (e.g., the Summer Term) *and* a part of the Scheduled Academic Year (e.g., the Fall *or* Spring Semester, or the Fall and Winter *or* Winter and Spring Quarters).
- A Borrower-Based Academic Year at a term-based institution is a period of enrollment equivalent to the institution's Scheduled Academic Year assuming the availability to a student to attend on at least a half-time basis in the same number of terms as the Scheduled Academic Year.
- The student regains eligibility immediately for a new Annual Loan Limit with each Borrower-Based Academic Year (which may correspond to the Scheduled Academic Year), or during the current Academic Year for the difference in Annual Loan Limits if the student progresses to the next grade level that has a higher Annual Loan Limit.
- Any required loan proration for a program of study of less than an Academic Year or the "remaining balance" of the program of study is based upon the Scheduled Academic Year.
- Adding the Summer Term to the Scheduled Academic Year is not applicable.

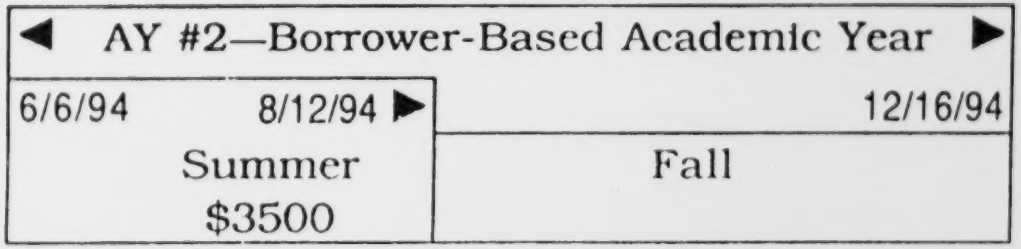
Application of Annual Loan Limits to Academic Year
(Borrower-Based Academic Year at Term-Based Institution)

Example C1: *(Jennifer)* Fall & Spring Loan Period (Scheduled Academic Year) at Grade Level 1— Jennifer applies for a $2625 Federal Stafford Loan. Institution certifies $2625.



"AY" = Academic Year (for FFEL or FDSL)

Summer Term Loan Period at Grade Level 2 — Jennifer applies for a $3500 Federal Stafford Loan. Institution certifies $3500.



The Summer Term plus the Fall Semester is an equivalent period of enrollment to the Scheduled Academic Year in which Jennifer has the opportunity to attend on at least a half-time basis, required for loan eligibility, in the same number of terms as in the Scheduled Academic Year. Because a new Borrower-Based Academic Year for FFEL and FDSL purposes will begin at the end of the Fall Semester, Jennifer will regain eligibility for a new Annual Loan Limit at that time.

Fall Loan Period at Grade Level 2—
Jennifer applies for a $3500 Federal Stafford Loan.
Institution certifies $0.

◄ AY #2—Borrower-Based Academic Year ► (Same AY #2 for Summer Loan)	
6/6/94 — 8/12/94 ►	◄ 8/22/94 — 12/16/94
Summer	Fall
$3500	$0

Because the same Borrower-Based Academic Year is still in effect and Jennifer has already borrowed the maximum, Jennifer is ineligible.

Spring Semester and Summer Term Loan Period at Grade Level 2—
(Jennifer did not progress at grade level.)
Jennifer applies for a $3500 Federal Stafford Loan.
Institution certifies $3500.

◄ AY #3—Borrower-Based Academic Year ►
Spring & Summer
1/9/95 — $3500 — 8/11/95

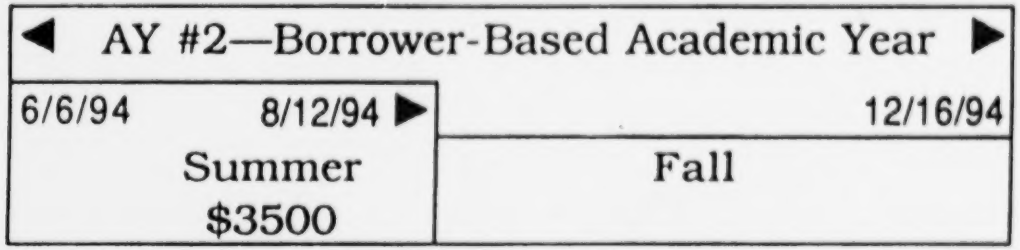
Jennifer regained eligibility in a new Borrower-Based Academic Year (AY #3).

Application of Annual Loan Limits to Academic Year
(Borrower-Based Academic Year at Term-Based Institution)

Example C2: *(Jim)*

Summer Term Loan Period at Grade Level 2—
Jim applies for a $3500 Federal Stafford Loan.
Institution certifies $3500.

[Jim already received $2625 during the Scheduled Academic Year (AY #1, Fall & Spring Semesters) at Grade Level 1.]



The Summer Term plus the Fall Semester is an equivalent period of enrollment to the Scheduled Academic Year. Because a Borrower-Based Academic Year will begin at the end of the Fall Semester, Jim will regain eligibility for a new Annual Loan Limit at that time.

Application of Annual Loan Limits to Academic Year (Borrower-Based Academic Year at Term-Based Institution)

Fall & Spring Loan Period at Grade Level 2—
Jim applies for a $3500 Federal Stafford Loan.
Institution cannot certify this Loan Period.

◀ AY #2—Borrower-Based Academic Year ▶ (Same AY #2 for Summer Loan)		
6/6/94 8/12/94 ▶	◀ 8/22/94 12/16/94	
Summer $3500	Fall -0-	Spring 5/19/95 ▶

Because the same Borrower-Based Academic Year does not conclude until the end of the Fall Term, a Fall and Spring Loan Period is *invalid*. A Fall only Loan period is valid, but Jim has already borrowed the maximum for this Borrower-Based Academic Year. However, the institution could certify a Spring only loan because a new Borrower-Based Academic Year will begin then:

	◀ AY #3—Borrower-Based Academic Year ▶	
	1/9/95 5/19/95 ▶	8/11/95
Fall ◀ 8/22/94	Spring Only $3500	Summer

The examples on this page demonstrate that the institution must insure that loans are not certified for over-lapping Academic Years (either Scheduled or Borrower-Based equivalent)—the Loan Period cannot be included in two different Academic Years.

Application of Annual Loan Limits to Academic Year (Non-Term Institutions)

D: Non-Term Institution or Program

◄ Academic Year ►	
8/23/93	3/22/94
◄ Annual Loan Limit applies to this time frame. ►	

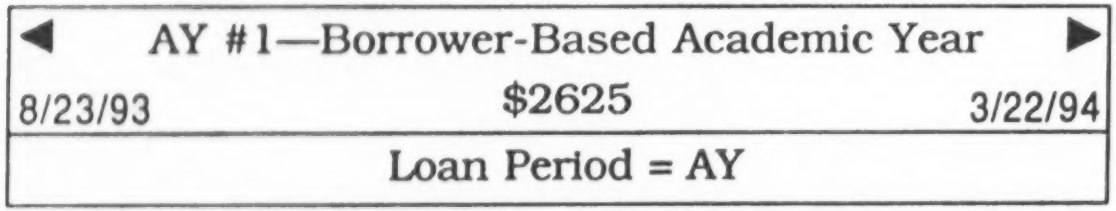
- The Academic Year must be determined for each borrower on a case-by-case basis or for a group of students beginning a program of study on the same start date who attend at the same pace. Only Borrower-Based Academic Years, which must meet the statutory definition in §481(d)(2), are used at non-term institutions.
- The Loan Period must correspond to the lesser of the program length or Academic Year. The Loan Period may also be the remaining balance of a student's program of study that is greater than an Academic Year but less than two Academic Years. Under certain conditions, the Loan Period may be longer than an Academic Year (not to exceed 12 months) if the guaranty agency permits, in which case there would be only one loan, and borrowing for a new Academic Year would not apply [cf. §682.603(f)].
- For a program of study longer than an Academic Year, the student regains eligibility for each Borrower-Based Academic Year provided at least 30 weeks of instructional time elapse and the appropriate number of clock hours or credit hours is earned for each prior Academic Year in the program of study. Note: Borrowing the difference for grade-level progression during the borrower's Academic Year does not apply.
- If the Loan Period is shorter than the Academic Year (for programs or remaining balances of programs that are less that the Academic Year), at least 30 weeks from the beginning date of the Loan Period must elapse for a student to regain eligibility for a new Annual Loan Limit (for a grade level or program of study with a higher Annual Loan Limit, the difference could be borrowed prior to the expiration of the 30 weeks).

Application of Annual Loan Limits to Academic Year (Non-Term Institutions)

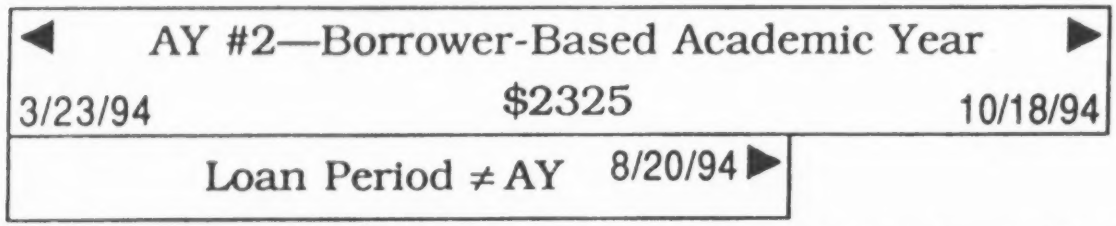
Example D: *(Jeremy)*

Jeremy is in a program of study of 1500 clock hours. The program of study is greater than one Academic Year but less than two Academic Years based on the definition in §481(d) of the HEA. The school defines its Academic Year as a calendar period of at least 30 weeks of instructional time in which the student is scheduled to complete 900 Clock Hours.

1st Academic Year Loan at Grade Level 1—
Jeremy applies for a $2625 Federal Stafford Loan.
Institution certifies $2625.



2nd Academic Year Loan (Remaining 600 Hours in Program of Study) at Grade Level 2—
Jeremy applies for a $3500 Federal Stafford Loan.
Institution certifies $2325 (maximum prorated loan limit—prior to 7/1/94).



Jeremy does not regain eligibility until each Academic Year elapses for his program of study. (The Academic Year remains a calendar period of at least 30 weeks of instructional time in which the student is scheduled to complete 900 clock hours, even though the remaining balance of the program of study is 600 clock hours.)

E: Transfer Students and Re-starts

- For a student who transfers to another school, the institution must consider the Academic Year of the previous institution to have begun with the most recent Loan Period (indicated on the *Financial Aid Transcript)* and to have been of at least 30 weeks in duration—unless the institution chooses to obtain documentation that indicates the specific beginning and ending dates for the Academic Year applicable to the most recent Loan Period at the previous institution. Such documentation could include whether a Summer Term was an add-on to the previous institution's preceding or following Academic Year.

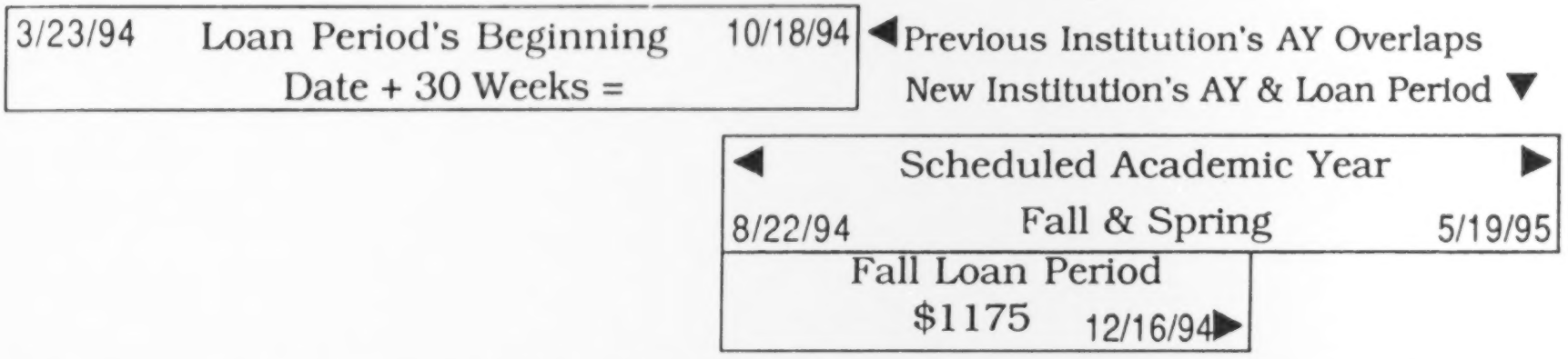
- The Academic Year at the previous institution does not determine the Academic Year at the new institution. However, if a Loan Period at the new institution begins prior to the expiration of the Academic Year at the previous institution, the amount the new institution may certify must deduct the gross loan amounts received during the Academic Year at the previous institution (less any refunds or cancellations made for the loan). Note that the institution may be required to adjust the amount for one Loan Period within its own Academic Year (e.g., for a Fall Semester that begins prior to the expiration of the previous institution's Academic Year) and not for a latter Loan Period within its same Academic Year (e.g., for a Spring Semester that begins after the expiration of the previous institution's Academic Year)—the institution must also insure that Annual Loan Limits are not exceeded during its own Academic Year as well.

- For a student who re-starts or transfers to a new program of study within the same institution and applies for a new loan with a Loan Period that begins prior to the expiration of the Academic Year for a previous program of study, the amount the institution may certify must deduct the gross loan amounts received during the Academic Year for the previous program (less any refunds or cancellations made for the loan).

Example E: *(Janice)*

Janice and Jeremy graduated from the same program of study which completed at the same time and for which they received identical loans (see Example D). Janice transfers to a Term-Based Institution with a Schedu'ed Academic Year that corresponds to the Fall and Spring Semester.

Fall Semester Loan Period at Grade Level 2—
Janice applies for a $3500 Federal Stafford Loan.
The *Financial Aid Transcript* indicates a loan for $2325 with a Loan Period from 3/23/94 to 8/20/94.
Institution certifies $1175.



The institution determines that its Fall Semester begins prior to the expiration of the previous institution's Academic Year by adding 30 weeks to the Loan Period's beginning date on the *Financial Aid Transcript*. Accordingly, the institution deducted $2325 from the Annual Loan Limit of $3500 for the maximum amount it could certify for the Fall Semester Loan Period. If Janice applies for another $3500 for a Spring Semester Loan Period (starting after the 30 weeks from the previous institution has expired) the institution could certify $2325—the difference between the Annual Loan Limit of $3500 and the $1175 Janice has already received during the institution's own Academic Year.

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